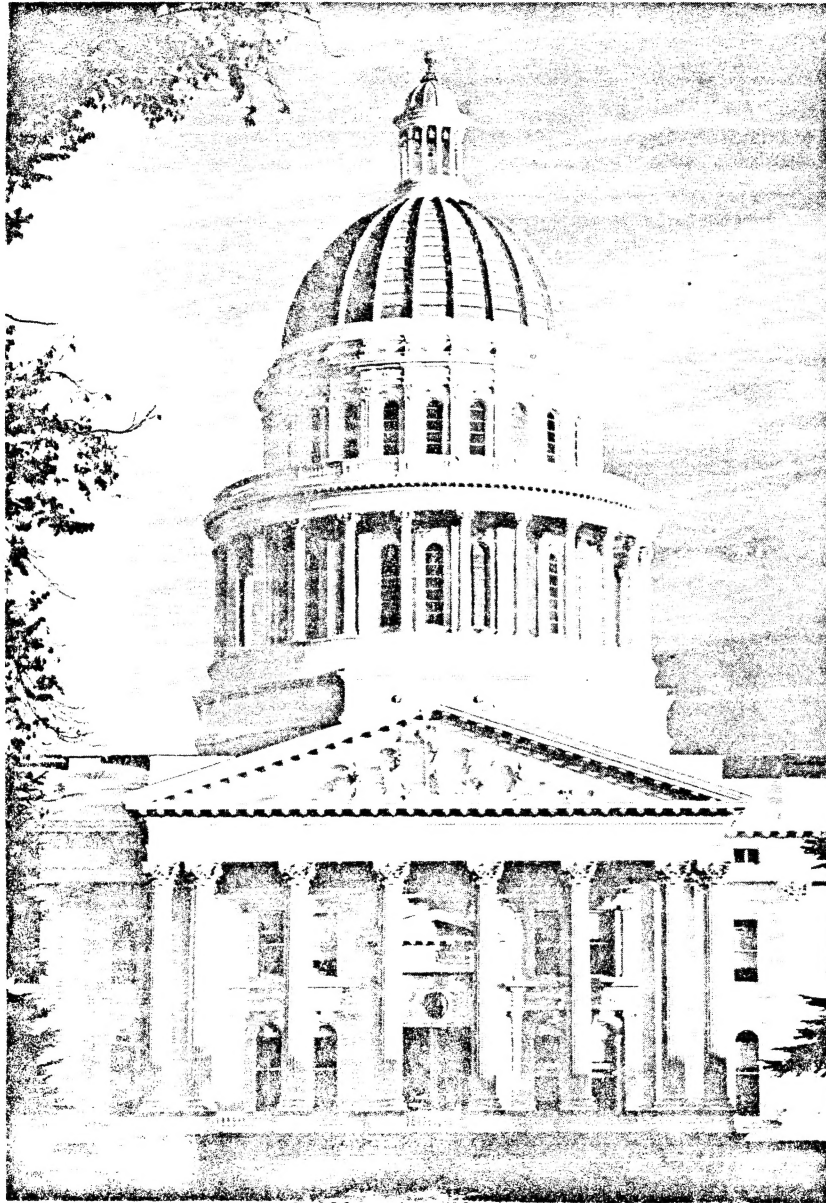


Joint Legislative Audit Committee

Office of the Auditor General

1955-1977



**ANNUAL
REPORT TO THE
CALIFORNIA LEGISLATURE
1977**

Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

1955 - 1977

California Legislature

The Joint Legislative Audit Committee, in compliance with Section 10500 of the Government Code, directs the Office of the Auditor General to conduct post-audits of programs, departments and agencies that are under State direction.

The objectives of the post-audits may include any of the following:

I. Legal Compliance

- A. Are programs administered in accordance with the laws enacted by the Legislature
- B. Do agency programs or functions comply with the intent of the Legislature
- C. Are agencies failing to conduct programs or functions intended by the Legislature

II. Efficiency and Economy

- A. Are programs administered using the optimum combination of public funds and other resources to meet program goals
- B. Do programs duplicate or overlap other existing programs
- C. Have programs continued to fulfill an intended or necessary need

III. Program Results

- A. Do program goals match legislative intent
- B. Are goals and short range objectives being achieved
- C. What standards of measurement have been established to determine cost-benefit ratios or productivity
- D. Do benefits equal or exceed costs

IV. Internal Control System Adequacy

- A. Have financial operations been properly conducted
- B. Are financial statements presented fairly

V. Federally-Funded Programs

- A. Is compliance with federal regulations sufficient to protect federal funding
- B. Do procedures exist for positive input by the state of California during formulation of federal regulations

1977 ANNUAL REPORT

**A Report of the Auditor General
to the
Joint Legislative Audit Committee
*and the
California Legislature***

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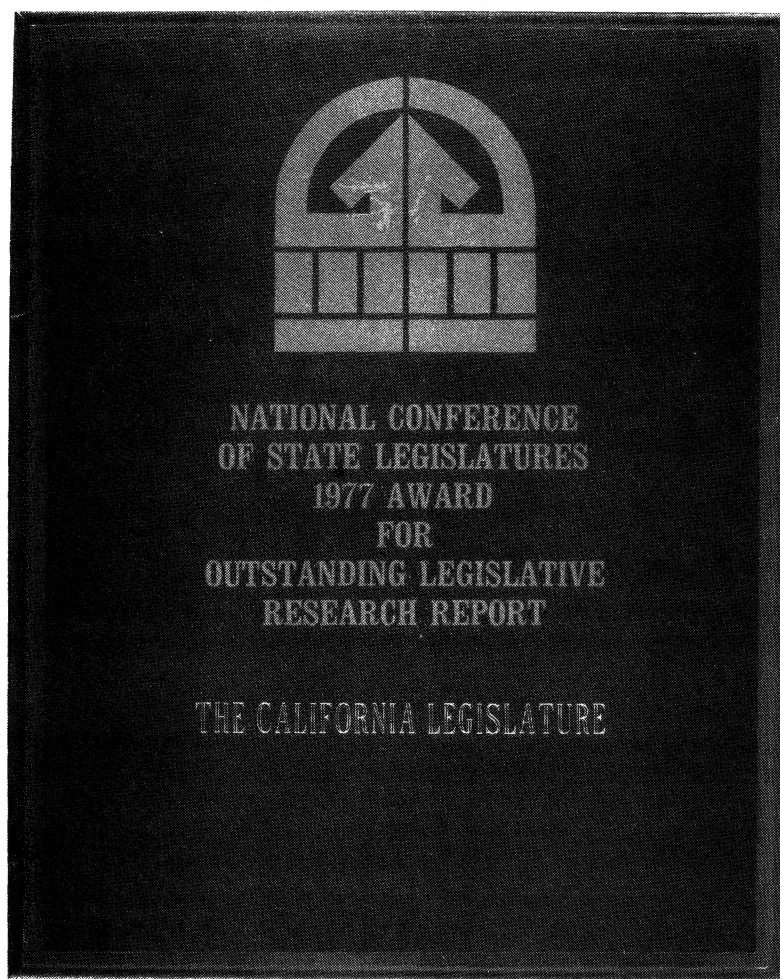
SUMMARY OF 1977 ACTIVITIES

1977 marked the 22nd year of operation of the Office of the Auditor General. During this year, we issued 65 audit reports and provided testimony at 21 legislative committee hearings. We also issued to the Legislature a summary of recommendations for possible legislative action proposed by the Office. Currently, 18 audits are underway.

This year the Office of the Auditor General was recognized for outstanding research reporting in an award presented by the National Conference of State Legislatures.

***Number of Reports Issued
January - December 1977***

<u>Addressee</u>	<u>Number of Reports Issued</u>	
	<u>1977</u>	<u>1976</u>
Agriculture & Services Agency	12	9
Board of Control	1	
Board of Equalization	1	1
Board of Governors, Community Colleges	1	
Business & Transportation Agency	6	4
Department of Education	2	1
Fair Political Practices Commission	1	
Governor's Office	1	
Health & Welfare	21	5
Resources Agency	1	1
University of California	3	
Miscellaneous	<u>15</u>	<u>4</u>
Total	65	25



The National Conference of State Legislatures presented the Office of the Auditor General with a national award for outstanding legislative research reporting at its annual meeting in August 1977. The Office received the award in recognition of the superior quality of our report "The California Indemnification of Private Citizens Program."

Sixty-four research reports from across the nation were nominated for the award. The Awards Committee evaluated the reports on the basis of significance, comprehensiveness, policy impact and methodology. The Legislatures of California, Michigan and Washington were recognized for outstanding research reporting.

INTERACTION WITH THE LEGISLATURE



Committee Hearings

The Auditor General and his staff are often asked to appear at legislative hearings to testify on audit reports. Policy committees frequently consider legislation recommended in our reports; fiscal committees make budget decisions for state agencies that we have reviewed. Although we have no authority to implement our recommendations, our reports and our participation at legislative hearings contribute to the process.

<u>Date</u>	<u>Committee</u>	<u>Subject</u>
March 1	Assembly Committee on Governmental Organization	Sunset Legislation
March 9	U.S. Senate Committee on Health	Homemaker Chore
March 9	Assembly Ways and Means Subcommittee on Resources and Transportation	Cal-Trans
March 14	Senate Finance Subcommittee On Education	Audits of School Districts
March 22	Senate Committee on Governmental Organization	Sunset Legislation
April 12	Assembly Committee on Governmental Organization	Sunset Legislation
April 19	Assembly Committee on Governmental Organization	Sunset Legislation
April 20	Senate Committee on Health and Welfare Assembly Committee on Human Resources	Medi-Cal Eligibility

<u>Date</u>	<u>Committee</u>	<u>Subject</u>
April 26	Assembly Ways and Means and Senate Finance Subcommittees on Education	Vocational Education
May 5	Assembly Committee on Transportation	Fuel Tax Feasibility
May 11	Senate Committee on Public Utilities, Transit and Energy	Public Transit
June 20 & 22	Assembly Committee on Finance, Insurance and Commerce	Report on Department of Insurance
July 21	Assembly Special Subcommittee on Health Care Investigations	Medi-Cal Claims Processing
August 1	Assembly Committee on Transportation	Public Transit
August 15	Assembly Committee on Revenue and Taxation	Fuel Tax Feasibility
October 21	Assembly Special Subcommittee on Aging	Homemaker Chore
November 14	Senate Committee on Health and Welfare, Subcommittee on Social Services and Welfare	Homemaker Chore
November 18	Assembly Special Subcommittee on Aging	Homemaker Chore
November 22	Assembly Committee on Health	Nursing Homes
December 9	Senate Committee on Health and Welfare	Care for the Elderly
December 28	Assembly Committee on Revenue and Taxation	Franchise Tax Board

Audits in Progress

Our auditors are currently working on 18 different audits. As the following list shows, the variety of our work is tremendous.

- * Military Department
- * Mass Transit - SB 1687
- * Security Loans - AB 2283
- * Fair Political Practices Commission
- * Attorney General
- * University of California
- * Food Procurement
- * Employment Training
- * Preschool
- * Workers' Compensation Liability
- * State Hospital Attendance Reporting
- * Forest Management Practices
- * Casualty Carrier Profitability
- * Tahoe Planning
- * California Youth Authority
- * Health Care Deposit Fund
- * School Audit Standards - SB 787
- * Bilingual Printing

Use of ADP

The computer plays an important role in a number of our audit assignments. The Office of the Auditor General owns a fully self-contained mini-computer, the WANG WCS/20 System. The system has mass storage (disk) capability, a line printer for report preparation, a data-entry keyboard and a CRT (television screen) station. It is a very "user-oriented" system, and our auditors are trained in both computer programming and computer systems design.

During the past year we have used our system to perform analyses that would be too cumbersome or time-consuming to perform manually. We have used our computer to:

- Evaluate the effectiveness of the citation process to enforce quality of care standards in nursing homes
- Evaluate the effectiveness of the Probation Subsidy Program and to simulate alternative funding formulas
- Evaluate the effectiveness of training programs for state employees
- Evaluate the effect of sick leave retirement credit on sick leave usage by school employees
- Evaluate the expenditures of pre-school programs throughout the State

- Project the revenue that would be available to local governments through a local gasoline tax.

In addition to using the computer on direct audit assignments, we also have an internal job costing system to monitor the time and costs of each audit assignment. For large data processing problems where the mini-computer may be too small, we have the ability to telecommunicate to the State's Stephen P. Teale Data Center.

The Office of the Auditor General is one of the leaders in the country in the use of state-of-the-art computer technology in performing in-depth program analysis and evaluation.



OPERATIONS

To establish sound fiscal and administrative policies, State Government needs straightforward facts about program operations and expenditures. Today in every major state agency, internal auditors are studying, analyzing and recommending improvements in their own operations. At the same time, our independent evaluations of agency operations are available to legislators. With access to internal and independent audit information, legislative committees are better prepared to make the budget and policy decisions that confront them each year.

Joint Legislative Audit Committee

The Joint Legislative Audit Committee consists of four members of the Senate and four members of the Assembly. Under the Legislature's Joint Rules, the Senate and Assembly fiscal committee chairpersons are two of the eight members. Senate members are appointed by the Senate Committee on Rules, and Assembly members are appointed by the Speaker of the Assembly.

At the close of the 1976-77 Legislative Session, these legislators formed the Joint Legislative Audit Committee:

Assembly

Mike Cullen, Chairman
Daniel Boatwright
Eugene Chappie
Leroy Green

Senate

Albert Rodda, Vice Chairman
Paul Carpenter
George Deukmejian
Nate Holden

Any legislative committee may request the Auditor General to conduct an audit or special investigation. All such requests, however, must be authorized by the Joint Legislative Audit Committee. The Committee then establishes work priorities and directs the Auditor General to commence the audit.

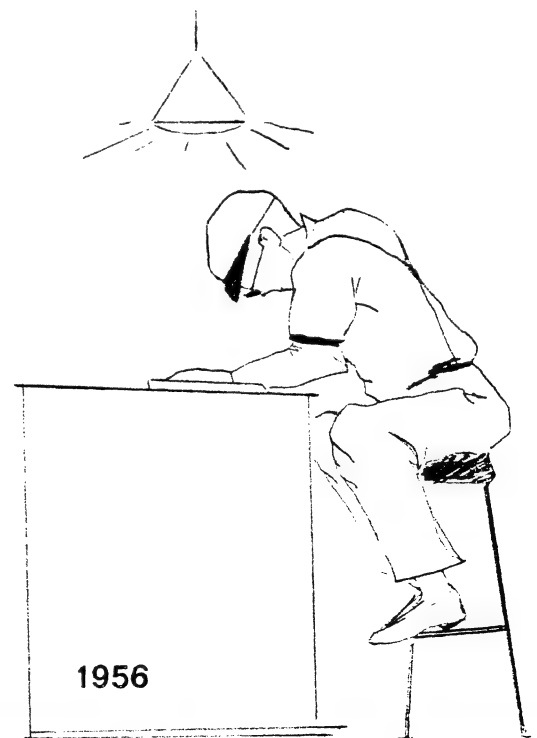
Auditor General

Once a specific request is approved by the Joint Legislative Audit Committee, the Auditor General may "make such special audits and investigations, including performance audits, of any state agency whether created by the Constitution or otherwise." Our professional staff is trained to conduct in-depth interviews, to observe, and to review and analyze records to get the facts. When we have assembled the facts, we submit to the Audit Committee an objective and nonpartisan report of our findings and recommendations. Our reports are a legislative resource for systematic and timely information on executive branch program operations and results.

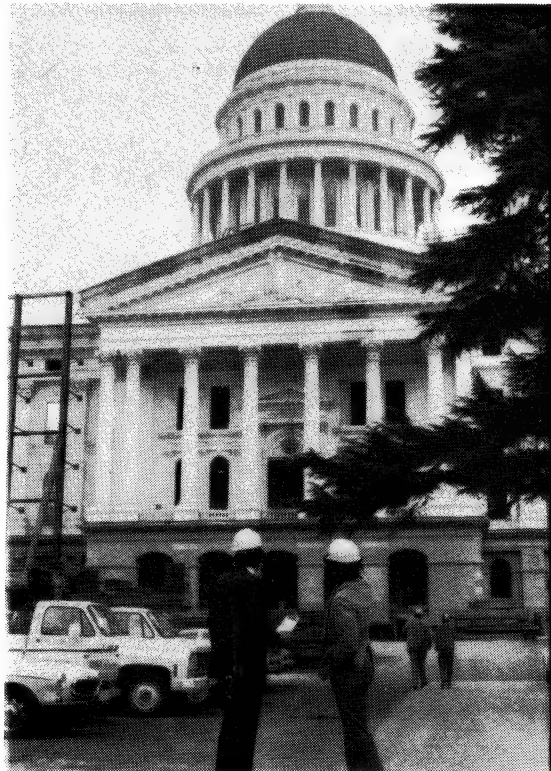
Responsibilities & Objectives

As directed by the Joint Legislative Audit Committee, the Auditor General conducts financial audits and performance reviews of state agencies.

When our work began in 1956, our audits concentrated on the traditional financial review, determining if fiscal operations were properly conducted and if financial statements were presented fairly. After 1956, however, financial reporting in the executive branch improved; the scope of their own internal audits broadened to better serve management and the Legislature.



As financial reporting improved, legislators wanted more in-depth information on the Governor's programs. Moreover, they wanted to have this information provided, or at least concurred in, by someone who was not an advocate of the program but who was independent and objective. The Joint Legislative Audit Committee responded to the changing needs of the Legislature and directed the Auditor General to conduct performance audits. In the past ten years, we have experienced a dramatic shift in our work from the traditional financial audits to the broad-scope performance audits.



The potential benefit from performance audits is tremendous:

- Increased legislative understanding of selected programs
- Improved government operations and services
- Identification of ways to save money by increasing revenues or decreasing expenditures.

The objective of performance audits is to evaluate:

Legal Compliance

- Are programs administered in accordance with their governing laws?
- Do agency programs comply with legislative intent?

Efficiency and Economy

- Are programs administered using the least cost combination of public funds and other resources?
- Do programs duplicate or overlap each other?

Program Results

- Are desired program results or benefits being achieved?
- Do program costs exceed benefits?

Our goal is to help achieve the most efficient, effective, and economical government possible by providing the Legislature and the taxpayers with quality, independent audit reports that present thoroughly documented facts and appropriate recommendations.

We encourage wide distribution of our reports, understanding that it is public response that frequently brings about or speeds up needed governmental reform. Reports are distributed to all legislators, the Governor and other elected officials, heads of state agencies, the press, and anyone who asks for them.

We serve as an independent source of information on the accountability of public administrators for their programs. The public--who pays for and whose good is expected to be served by such programs--should be able to hold public officials accountable for their performance. The Joint Legislative Audit Committee and the Office of the Auditor General provide the Legislature and the public one important means of accomplishing this objective.

Audit Standards

The Office of the Auditor General has adopted the standards for auditing developed and issued by the United States General Accounting Office (GAO), our counterpart at the national level. These standards are the product of extensive study of the auditing needs and practices of federal, state, and local governments, and are printed in the GAO booklet, Standards for Audit of Governmental Organizations, Programs, Activities and Functions.

Staff Members

Our professional audit staff is composed of men and women with a rich variety of backgrounds. All have college degrees, and 50 percent have advanced degrees. Of the 49 positions currently filled, 11 are certified public accountants and 4 are lawyers. The balance of our staff has professional expertise in such fields as social welfare, budgeting, economics, electronic data processing, banking and finance, statistics, education, writing and editing, health, investments, marketing, political science and engineering.

COMPOSITION OF PROFESSIONAL STAFF (December 31, 1977)

Academic Discipline:

Certified Public Accountant	11
Juris Doctor	4
Doctor of Business Administration	1
Master of Business Administration	13
Master of Public Administration	7
Other Advanced Degrees	4
Bachelor Degrees	53

Staff

AUDITOR GENERAL: JOHN H. WILLIAMS, CPA

Assistant Auditor General: Wesley E. Voss, CPA
Assistant Auditor General: Thomas W. Hayes
Receptionist: Nancy C. Robinson
Secretary to Auditor General: Peggy L. Lusk
Training Director: Harold L. Turner
Audit Reports: (Request for) Linda S. Preo & Patty Seto
Editorial Assistant: Melanie M. Kee

AUDIT OPERATIONS

Audit Managers

Kurt Sjoberg
Gerald A. Silva, CPA
Harold L. Turner

Supervising Auditors

Curtis I. Davis, CPA
Richard I. LaRock, CPA

Auditors

William S. Aldrich
Richard V. Alexander
Peter A. Barbosa, JD
J. Peter Bouvier, JD
Thomas Callanan
Robert E. Christophel
Samuel D. Cochran
Cynthia M. Dirks
Charles A. Dobson, CPA
Ronald Franceschi
Kathleen A. Herdell
Richard Howard, JD
Linda L. Huffman
Mildred Kiesel, CPA
Ross Luna, CPA
Richard Mahan
Robert J. Maloney
Kenneth Mason
Michael McGarity
Jeffrey L. Mikles

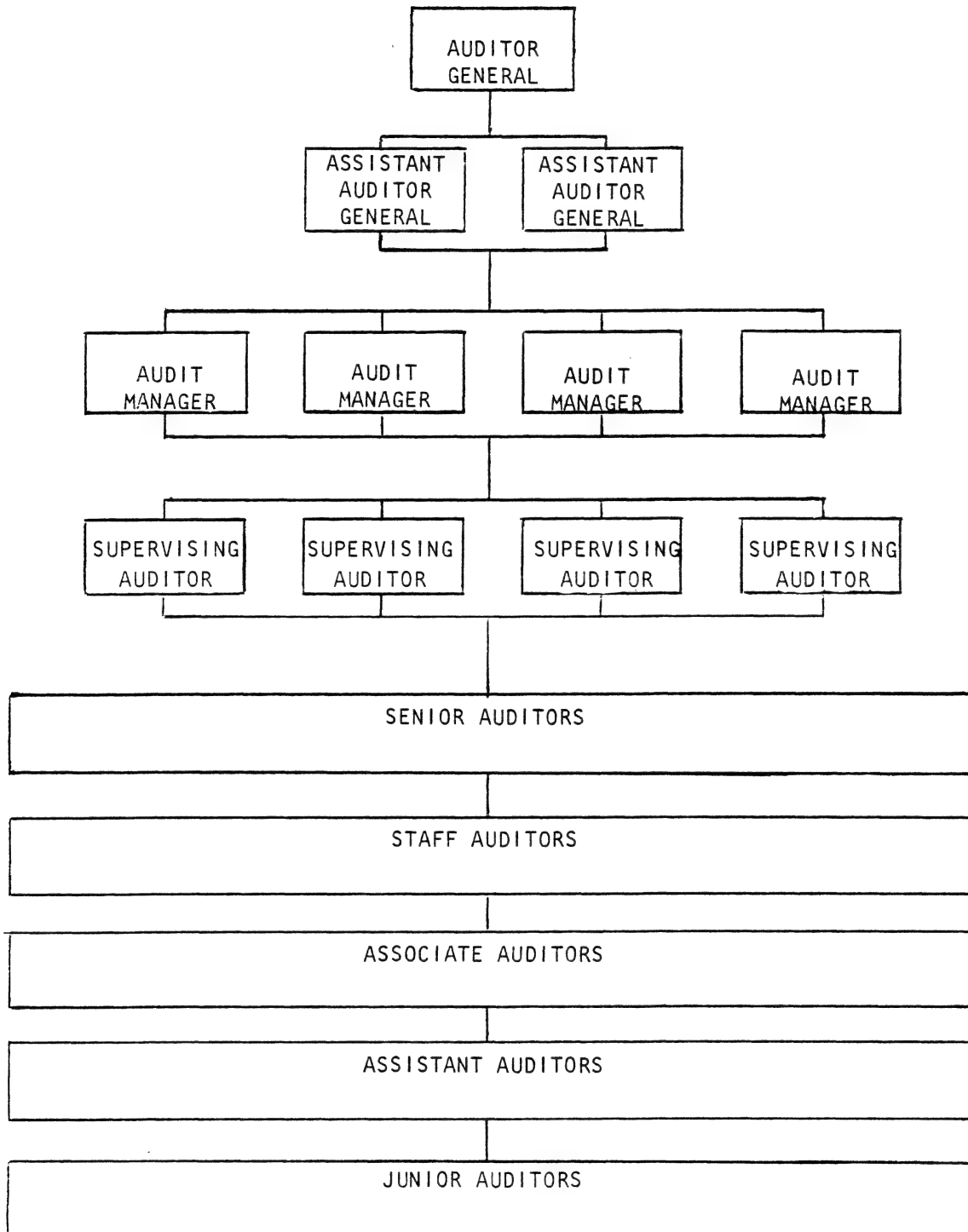
Patricia Nishi
Robert T. O'Neill
Ulrich Pelz
Daniel G. Perez
Eugene T. Potter
Mimi Quiett
Dennis C. Reinholtsen
Walter Reno
Gary S. Ross
Steven Schutte
Dennis Sequeira
Dennis Sesler, CPA
Edwin H. Shepherd
John P. Sontra
David Tacy
Dore C. Tanner, CPA
Merrill E. Tompkins, CPA
Richard C. Tracy
Donald L. Truitt
Douglas L. Williams, JD

Support Staff

Cindy Babcock
Sue Burmaster
Lucy Chin

Pamela G. Heon
Elizabeth Hodgins
Ann R. MacAdam

Organization Chart



Professional Career Development

The Office of the Auditor General recognizes the need for continuing education for auditors in a dynamic governmental environment. We have developed a comprehensive Professional Career Development Program for the staff. Three training objectives form the framework of the program:

- To maintain the technical audit skills acquired in school and on the job
- To enlarge the scope of knowledge of specialized professionals as the state of the art advances
- To prepare the staff to assume the greater responsibilities of higher position classifications.

Matching Responsibilities and Training

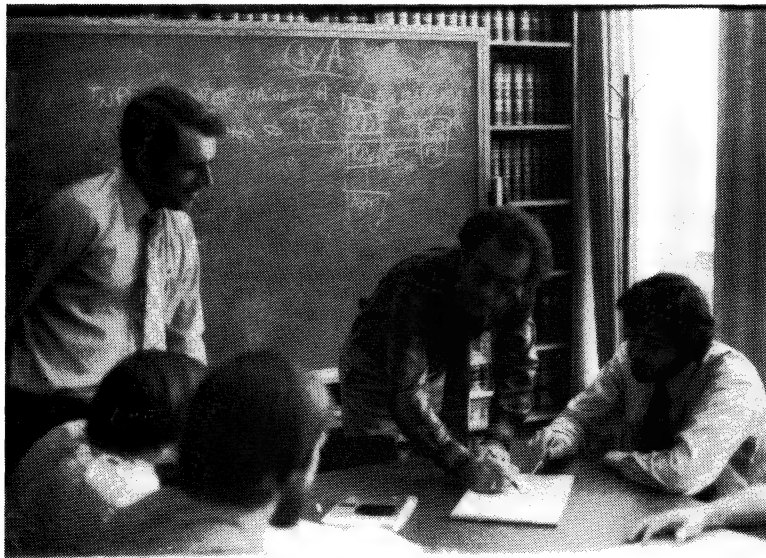
Our training program is designed to address the varied and increasing responsibilities encountered by the staff as they move up in the organization. We choose courses that deal with operational audit techniques and theoretical concepts which all auditors must work with. We recognize that computers are here to stay and we provide progressively complex training in audits involving electronic data processing.

Several training courses stress communication--both oral and written. Good counseling and supervising skills are also essential, and we offer training sessions in both the technical and practical applications of managing people.

Delivering the Program

We employ various methods of delivering our Professional Career Development Program. Our staff has expertise in a wide range of disciplines, and we rely heavily upon our own staff to conduct in-house training programs where appropriate. Our auditors also attend courses conducted by outside sponsors. Technical groups such as the Intergovernmental Audit Forum and the Council of State Governments are becoming increasingly active trainers. The U. S. Civil Service Commission and the State of California's Personnel Development Center offer many training opportunities which we utilize. Private accounting firms, colleges and universities conduct educational seminars, and their excellent instructors assist us in both consulting and delivery capacities.

In addition to formal classroom training, we place a strong emphasis on practical on-the-job-training experiences. We again utilize the skills and talents of our multi-disciplined staff by rotating audit personnel at the conclusion of each assignment to provide a broad base of exposure for all staff levels.

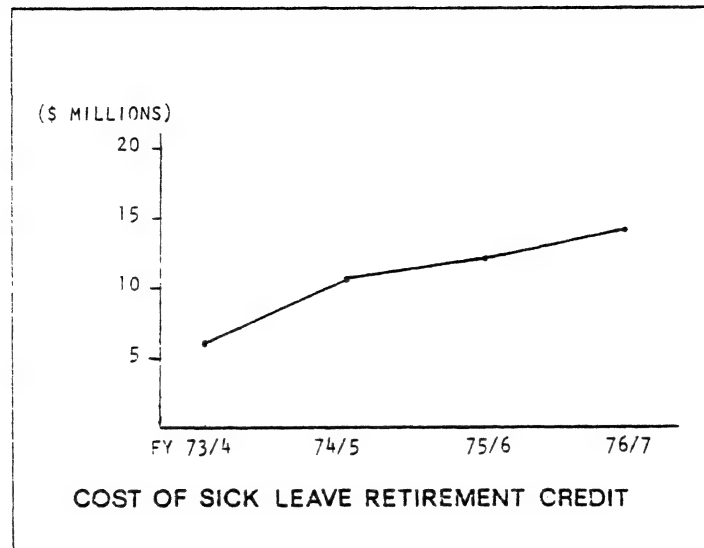


No professional development program can succeed without the support of an organization's top management. Both the Office of the Auditor General and the Joint Legislative Audit Committee have demonstrated their strong commitment to continued progress through a training program designed to benefit the staff, the Office and ultimately the citizens of the State of California.

1977

REPORT SUMMARIES 

AGRICULTURE & SERVICES AGENCY



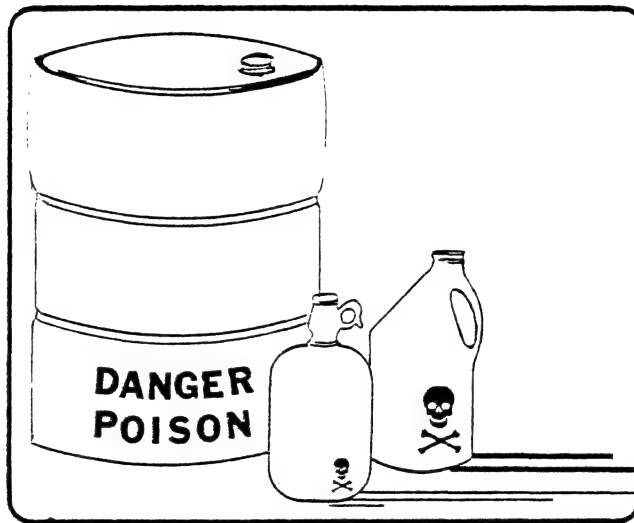
No. 225

IMPACT OF LEGISLATION GRANTING RETIREMENT CREDIT FOR SCHOOL EMPLOYEES' ACCUMULATED AND UNUSED SICK LEAVE December 20, 1977

Chapters 89 and 1398, Statutes of 1974 provided retirement credit for accumulated and unused sick leave of school employees who are members of the State Teachers' Retirement System (STRS) or the Public Employees' Retirement System (PERS). School districts are required to pay the resulting costs. The legislation did not provide for reimbursement to school districts because there were projected savings resulting from decreased costs of hiring substitutes as well as costs resulting from the sick leave credit. The legislation required the Auditor General to conduct a study of the savings and costs and report the results to the Legislature.

Since the effective dates of the legislation, we identified \$43 million in additional costs to school districts throughout the State; however, there were no significant offsetting savings. Of the \$43 million cost, \$34 million was attributed to certificated school employee members of STRS and \$9 million was attributed to classified school employee members of PERS. There has not been any significant change in school employee sick leave usage as a result of the legislation, and the school districts have incurred the cost of sick leave credit while not receiving any identifiable savings.

Report referred to Senate Rules Committee; Assembly Committee on Public Employees and Retirement.



No. 235.6

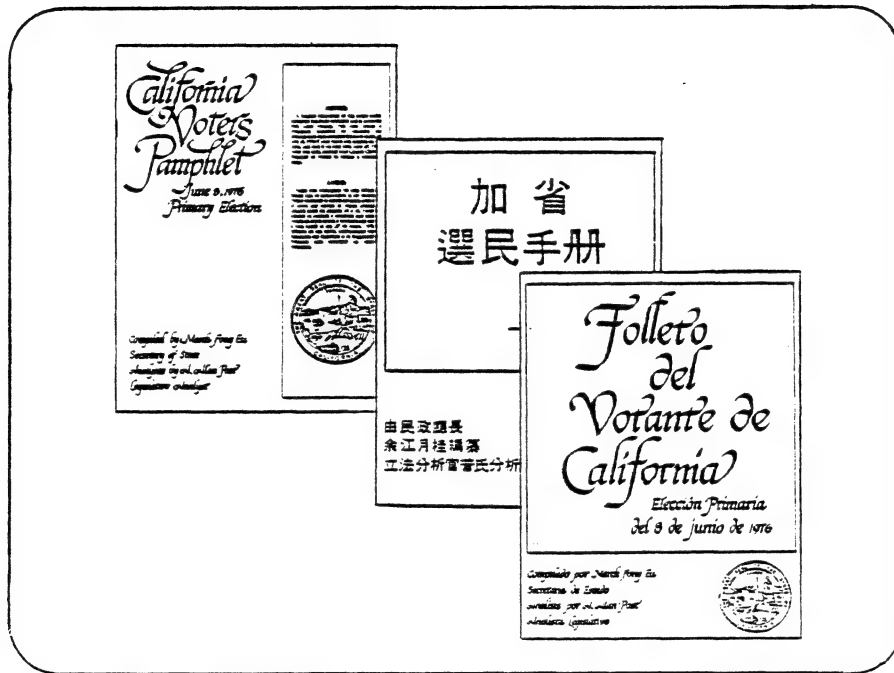
PESTICIDES
March 21, 1977

Since August 4, 1975, the federal Environmental Protection Agency's responsibilities have included registration and labeling of pesticides distributed both in interstate and intrastate commerce. The State Department of Food and Agriculture has maintained its existing registration staff level even though many state registration and labeling activities are now a duplication of federal effort.

There are broad variations in the counties' enforcement of pesticide regulations, apparently resulting from (1) the lack of departmental authority to withhold state support funds, and (2) the substantial decline in the rate of reimbursement of county costs.

We also found that audits of pesticide registrants are completely inadequate and present methods used to report pesticide illnesses are ineffective.

Report referred to Senate Committee on Agriculture and Water; Assembly Committee on Agriculture.



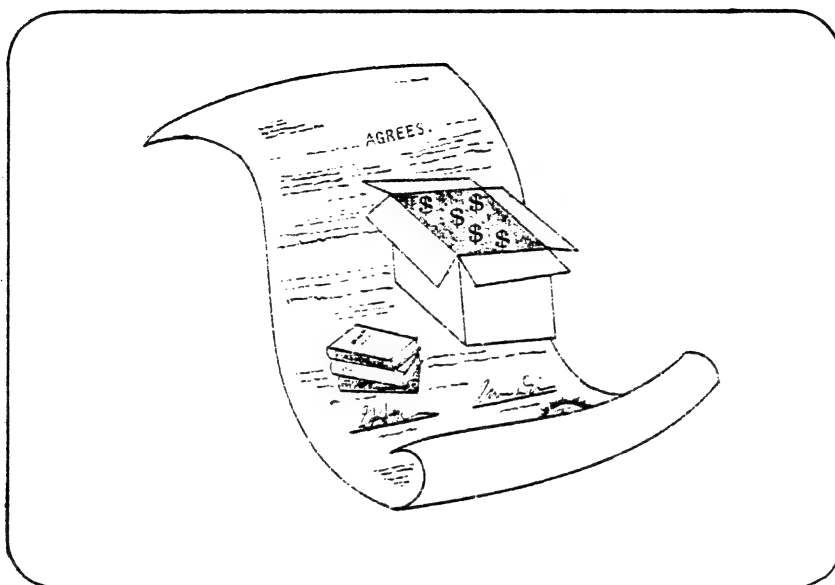
No. 285.1

QUESTIONABLE CONTRACTING PRACTICES FOR THE
1976 VOTERS PAMPHLET
March 29, 1977

The 1976 primary voters pamphlet printing contract was awarded to an out-of-state firm. Our review revealed several deficiencies in the manner in which the contract was awarded. These deficiencies may have prevented the State from receiving a lower bid than the one accepted.

Under a 1970 Attorney General's opinion, the State cannot extend preference to California vendors as the lowest bidder meeting job specifications. We recommend that the Legislature provide by statute that California business firms be given a percentage credit for purposes of determining the amount of bid. This would benefit the State's economy and provide an opportunity for California firms to better participate in the business affairs of the State of California.

Report referred to Senate Committee on Governmental Organization;
Assembly Committee on Elections and Reapportionment.



No. 285.2

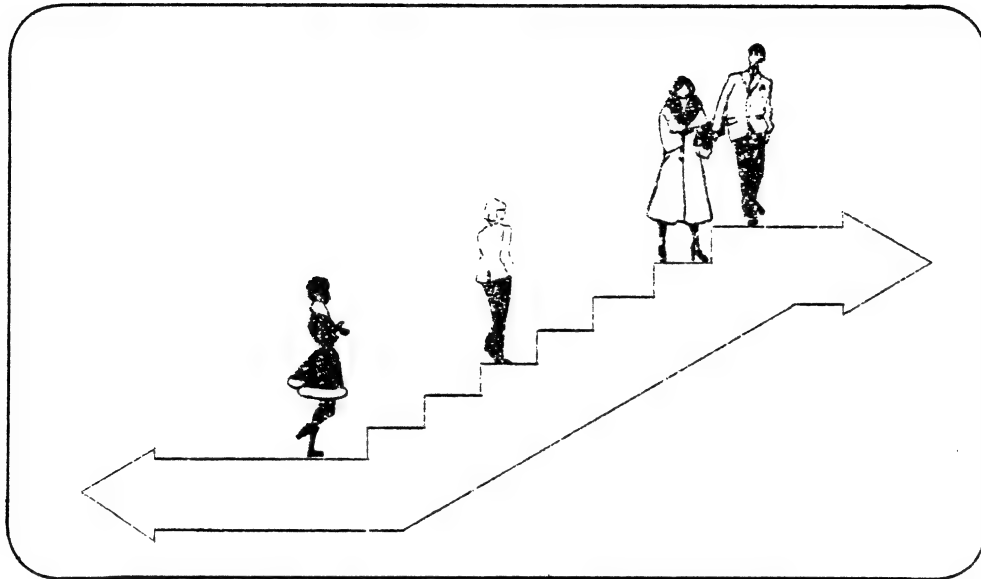
DEFICIENCIES IN TEXTBOOK PROCUREMENT
PRACTICES IN CALIFORNIA
October 11, 1977

State law requires a supplier of instructional materials to provide California with the lowest prices at which he sells instructional materials anywhere in the United States. Our review of instructional material prices paid by the State and the local school districts showed that despite the price maximums established by state law, California's prices were as much as 30 percent higher than those of another state purchasing the same material under similar bid offerings and contract dates. These overcharges were made because some publishers do not comply with California law, and the Department of Education and the local school districts do not adequately monitor the provisions of this law. Additionally, the State and the local school districts could obtain lower prices if they arranged longer-term contracts with publishers.

We recommend that the Department of Education improve the State's and the local school districts' purchasing practices, and take all necessary action to recover any overpayments to publishers.

Additionally, the Department of Education has allowed an excessive surplus of nearly \$10 million to accumulate in the State Instructional Fund. These funds have been uncommitted and idle since 1973. Legislation is required to determine whether the funds can be committed for either distribution to local school districts or return to the State General Fund.

Report referred to Senate Committee on Education; Assembly Committee on Education.



No. 706.1

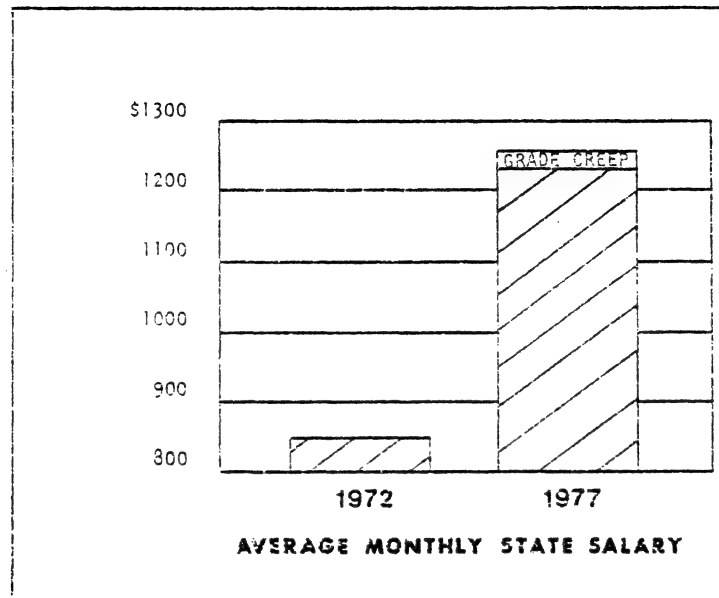
OPERATIONAL IMPROVEMENTS FOR THE
CAREER OPPORTUNITIES DEVELOPMENT PROGRAM
October 12, 1977

The Career Opportunities Development Program (COD) is designed to develop new career opportunities for welfare recipients and other disadvantaged persons who have been unable to enter public service because of insufficient work experience or education.

The State Personnel Board could improve the COD program by increasing the efficiency of job contract development and implementing a formal monitoring system. Deficiencies in current COD program operations (1) prevented the Employment Development Department from receiving \$2.15 million in additional federal funding in fiscal year 1977-78, and (2) allowed job contractors and grantees to spend \$6.7 million without a system to monitor expenditures.

We recommend the State Personnel Board (1) implement a comprehensive management-by-objective system which includes workplans, performance standards and cost guidelines, and (2) develop an on-site monitoring system for job contracts and grants.

Report referred to Senate Committee on Public Employees and Retirement; Assembly Committees on Human Resources and Public Employees and Retirement.



No. 706.2

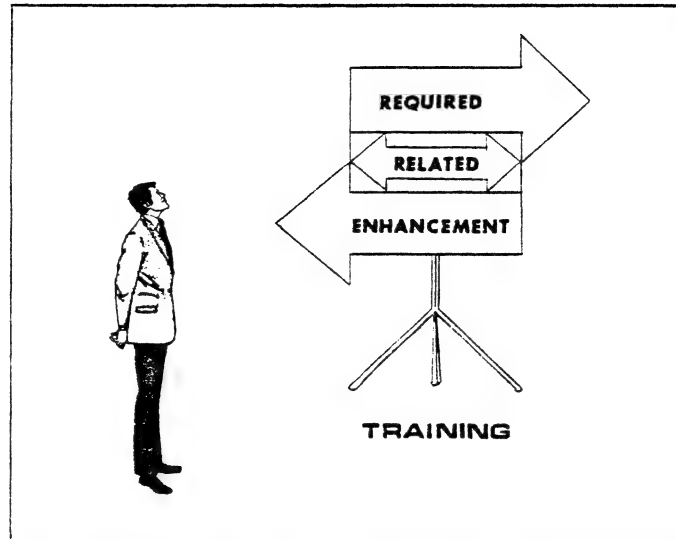
IMPROVEMENTS NEEDED IN THE MANAGEMENT OF
POSITION CLASSIFICATION IN STATE SERVICE
November 10, 1977

The State Personnel Board (Board) is responsible for creating, revising and abolishing position classes in State Government. The Board has delegated classification authority to state departments, but has not provided them adequate position allocation standards. As a result, up to 39 percent of state employees have been classified into positions for which no standards exist. Additionally, many standards which do exist are more than ten years old and may be inaccurate.

The Board also has not effectively monitored classification to ensure that positions are accurately classified. Only three classification audits and two special studies have been conducted since 1971. Further, the management information system used to identify classification problems is misleading. As a result, some misclassification has occurred, partially contributing to grade creep costing the State up to \$19 million annually.

We recommend the Board (1) develop the system necessary to assist departments in making more accurate classification decisions, and (2) provide the monitoring necessary to ensure that misclassifications and unjustified grade creep are held to a minimum.

Report referred to Senate Committee on Public Employees and Retirement; Assembly Committee on Public Employees and Retirement.



No. 706.3

**INSUFFICIENT LEADERSHIP & ACCOUNTABILITY
IN THE TRAINING OF STATE EMPLOYEES**
December 6, 1977

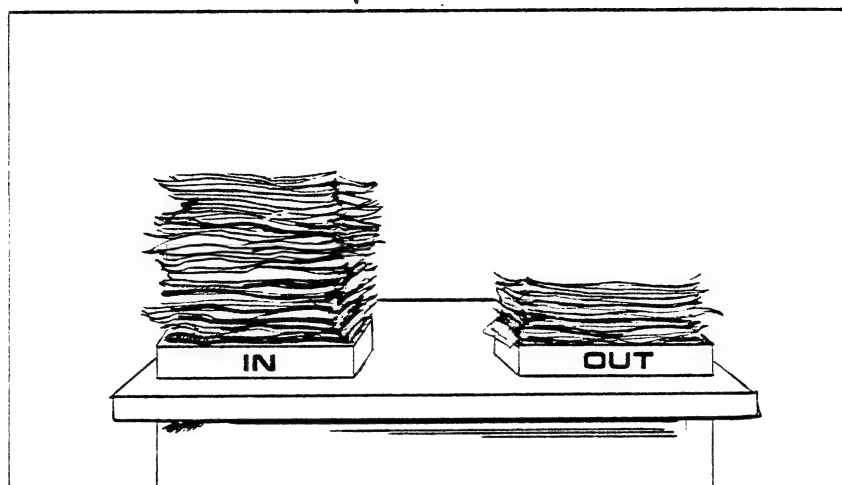
The State Personnel Board (Board) is required to devise plans and cooperate with other state departments regarding state employee training programs. The Board carries out these responsibilities through its Personnel Development Division.

We found that the Board and other state departments have not coordinated their training activities or cooperated to devise plans for training state employees. Currently, the state training effort is fragmented and diffused, and there is a need for the Board to exercise leadership and guidance in training activities.

There is insufficient management information available on training activities to adequately analyze and evaluate training. Furthermore, the Board has not monitored department training programs, and departments are not required to meet any minimum standards of performance in administering training programs.

We recommend that the Board cooperate with departments to identify the most efficient and effective methods of delivering training. We also recommend that the Board establish standards of performance for training and exercise the control necessary to insure that departments maintain these standards.

Report referred to Senate Rules Committee; Assembly Committee on Public Employees and Retirement.



No. 717

NEED FOR IMPROVED ADMINISTRATION IN THE
BUREAU OF COLLECTION AND INVESTIGATIVE SERVICES
DEPARTMENT OF CONSUMER AFFAIRS
August 4, 1977

The Bureau of Collection and Investigative Services is authorized under the Business and Professions Code to license and regulate collection agencies, private patrol operators, private investigators, reposseors, insurance adjusters and alarm companies.

Our audit focused on the licensing of private patrol operators and their employees, on the absence of alarm company regulations and on funding deficiencies in the Collection Agency program.

Administrative deficiencies within the Bureau have significantly impeded the licensing of security guards. This has imposed a hardship on both guard applicants and their employers. Turn-around time for security guard registration did not average 42 to 56 days as suggested by the Department, but according to our tests exceeded 85 days.

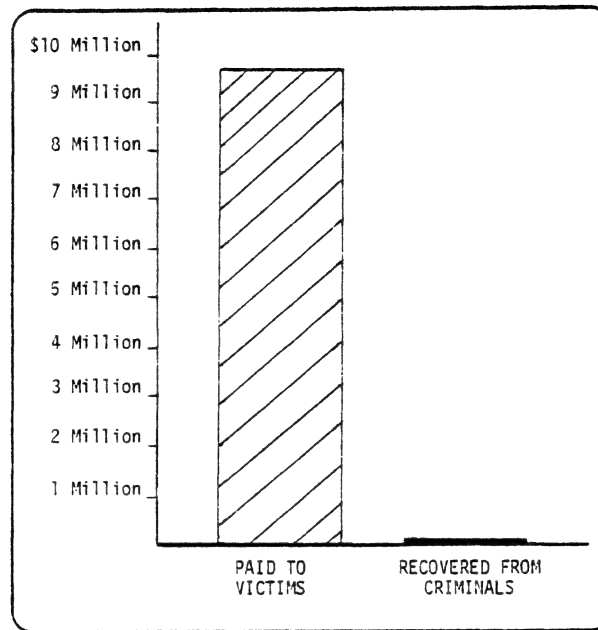
Another reason for delays in the licensing process was the inadequate implementation of training course regulations. Training is required prior to the registration of security guards. However, ineffective administration makes compliance difficult to achieve.

We also found that the Collection Agency program has not been adequately funded and the Bureau has not aggressively sought legislative approval of fee increases. Collection Agency Fund deficiencies limit program enforcement and the protection provided the public.

We have recommended that the Department take immediate action to correct the Bureau's administrative problems.

Report referred to Senate Committee on Business and Professions; Assembly Committee on Labor, Employment and Consumer Affairs.

BOARD OF CONTROL



No. 289

THE CALIFORNIA INDEMNIFICATION OF PRIVATE CITIZENS PROGRAM May 2, 1977

The California Indemnification of Private Citizens Program provides a maximum of \$23,500 in compensation to an individual claimant for medical expenses, loss of wages or support, job retraining or similar employment-oriented rehabilitative services and attorney fees.

- Under California law, there are four basic procedures available for recovering money paid from the Indemnity Fund: court-imposed fines, restitution, subrogation and liens.

Court-imposed fines and restitution have not been a significant source of funding for the Indemnity Fund principally because of the defendants' inability to pay the fine or restitution and collection and enforcement problems. Subrogation is not used to recover monies because of the state time and expense required and the unlikelihood of recovery. Liens have been the most successful method of recovering money. However, the State may have lost opportunities to recover money through the lien process because the Attorney General's Office was unaware that a victim who received compensation from the Indemnity Fund had instituted a court action to recover damages. Under California law, the State may intervene in such court actions and recover the amount of cash payments made from the Indemnity Fund.

The current processing time for victim indemnification claims may also be a source of hardship on applicants. Unlike nine other states that had victim compensation programs as of January 1, 1977, California does not provide emergency payments to victims.

We have recommended legislative action to increase recoveries for the Indemnity Fund and the General Fund, and to provide for emergency payments to victims when warranted.

Report referred to Senate Committee on Judiciary; Assembly Committee on Criminal Justice.

BOARD OF EQUALIZATION



No. 301

A STUDY OF THE ADMINISTRATIVE FEASIBILITY OF A LOCAL GASOLINE TAX March 7, 1977

There are several feasible methods of administering a local-option gasoline tax system. Based on our analysis, we recommend that distributors and local brokers collect local gasoline taxes, maintain necessary records, and make all periodic reports and tax payments. Collection at this level minimizes the taxpaying population and offers opportunities to utilize existing reporting and management information systems. We further recommend that the State administer the local gasoline tax.

Report referred to Senate Rules Committee; Assembly Committee on Revenue and Taxation.

BOARD OF GOVERNORS, COMMUNITY COLLEGES



No. 709

QUESTIONABLE EXPENDITURES OF STUDENT HEALTH FEES, CHANCELLOR'S OFFICE, CALIFORNIA COMMUNITY COLLEGES September 14, 1977

California community college districts may require students to pay a fee for health supervision and services, including direct or indirect medical and hospitalization services, or for operation of a student health center. All such fees are to be expended only for the purposes collected.

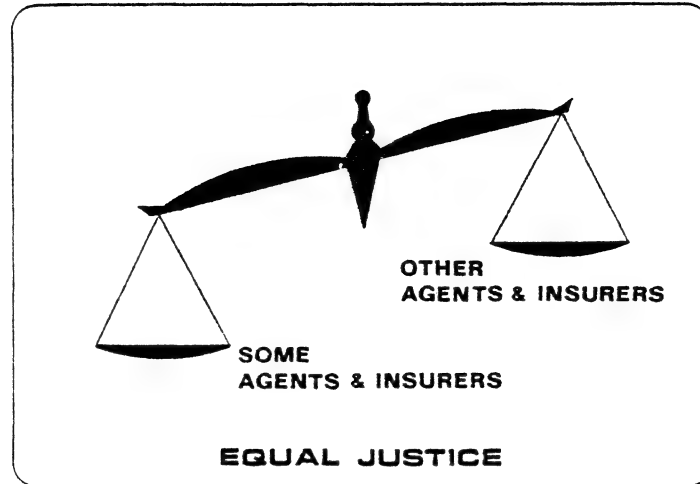
We reviewed 22 community colleges' health services programs and found that 20 of these colleges are partially funding athletic programs from student health fees. Student health fees are used to fund athletic accident insurance, athletic trainers' salaries and ambulance service and doctors' fees at athletic events. According to the Legislative Counsel, this is an improper use of such fees.

We also found that the community colleges inadequately account for unexpended balances of student health fees.

We recommend that the Legislature amend appropriate sections of the Education Code to clarify which services may be funded by student health fees. We also recommend action by the Chancellor's Office of the California Community Colleges to separately account for the unexpended balances of student health fees.

Report referred to Senate Committee on Education; Assembly Committee on Education.

BUSINESS & TRANSPORTATION AGENCY



No. 292
292A

REVIEW OF THE DISCIPLINARY FUNCTIONS OF THE DEPARTMENT OF INSURANCE April 19, 1977

We reviewed the Department of Insurance's disposition of public complaints against insurance companies and agents. We concluded that the Legal Division, which is responsible for all formal disciplinary action against licensees, has given preferential treatment to selected licensees, notably insurance companies, and those agents whose attorneys are former key Department officials. Selected licensees have been permitted to negotiate the Department's charges and proposed disciplinary action (a procedure which is at variance with the Department's own policy), and have been allowed to reduce the penalties imposed on them below those originally specified by the Department.

We also found that the Department's procedures for investigating public complaints are seriously deficient. Little effort is made to investigate overall patterns of complaints about insurers' business practices, upon which serious discipline might be based. The Department more effectively addresses public complaints against insurance agents, yet inadequate management of these investigations results in insufficient investigations and an unnecessary backlog of work. The Department's fragmented organization of investigative and disciplinary functions and a lack of uniform procedures compound the problems.

Our review suggested the need for basic reforms in the Department's disciplinary operations. We recommend legislative oversight to assure that appropriate reforms are implemented.

Report referred to Senate Committee on Insurance and Financial Institutions; Assembly Committee on Finance, Insurance and Commerce.



No. 295

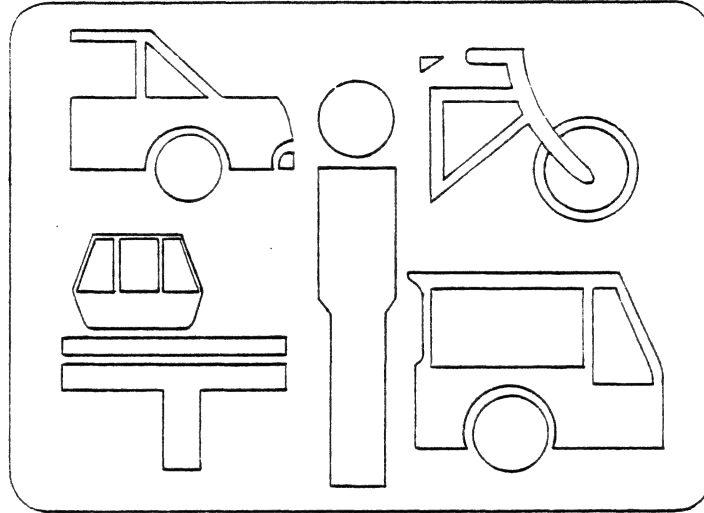
FINANCING AND EVALUATING PUBLIC TRANSIT SYSTEMS
IN CALIFORNIA
January 26, 1977

California's Transportation Development Act (TDA) of 1971 authorized counties to use one-quarter of one percent of the existing sales tax for specified transportation purposes. Since TDA funds became available, transit systems in the State have become increasingly dependent upon government subsidies. During fiscal year 1975-76 TDA funding totaled \$190.4 million.

Presently there is no system for routinely measuring the efficiency and effectiveness of California's transit operations. Also, the fiscal and management audit requirements for TDA expenditures are not comprehensive and do not adequately disclose how funds are spent.

We have recommended alternatives to reduce transit deficits and legislative action to establish a performance evaluation system and improve audit requirements.

Report referred to Senate Rules Committee; Assembly Committee on Transportation.



No. 707

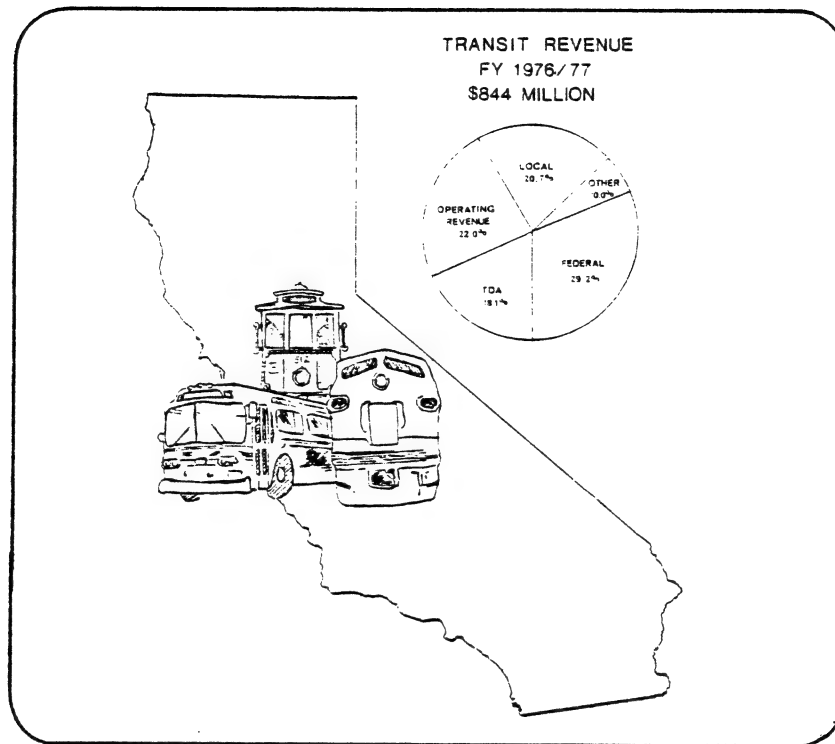
REGIONAL TRANSPORTATION PLANNING AGENCIES'
MANAGEMENT OF THE TRANSPORTATION DEVELOPMENT ACT
July 29, 1977

California's 43 Regional Transportation Planning Agencies are responsible for preparing and updating transportation plans required by state and federal law. These agencies are also responsible for allocating funds made available by the Transportation Development Act among the various eligible claimants within their regions. During fiscal year 1976-77 the revenue provided under the Transportation Development Act totaled \$219 million.

California's Regional Transportation Planning Agencies have (1) not allocated Transportation Development Act funds to transit operators in a manner which provides incentives for these operators to improve their efficiency and effectiveness, (2) not always provided an accurate financial analysis of planned changes in service levels, and (3) not adequately controlled all expenditures of Transportation Development Act funds.

We have recommended specific actions which should improve the performance of the Regional Planning Agencies which manage the provisions of the Transportation Development Act.

Report referred to Senate Rules Committee; Assembly Committee on Transportation.



No. 721

AVAILABILITY OF TRANSPORTATION
DEVELOPMENT ACT FUNDS
December 8, 1977

California's Transportation Development Act (TDA) of 1971 authorized counties to impose a one-quarter percent retail sales tax, with the revenues generated from the tax to be used for specified transportation purposes. Since TDA funds became available, at least 47 new transit systems have been established which are at least partly funded by the TDA. During fiscal year 1977-78, TDA revenue for local transportation purposes is estimated to approach \$262 million.

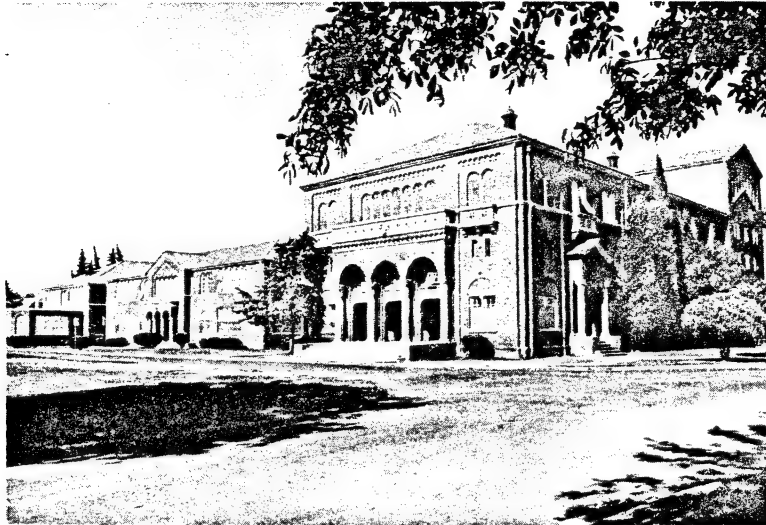
Our review revealed that since TDA funds were made available in July 1972, \$147 million in unspent TDA funds has accumulated. This has been caused by (1) annual underestimations by county auditors of TDA funds which will be available, (2) legal limitations on the expenditure of TDA funds, and (3) funds being reserved for future capital projects.

It is expected that TDA funds held in reserve will continue to increase over the next several years because (1) federal funds are becoming more difficult to obtain, and (2) TDA funding regulations encourage transit systems to reserve funds for future capital projects.

The Legislature may wish to amend the TDA to provide greater flexibility in the apportionment and allocation of TDA funds.

Report referred to Senate Committee on Transportation; Assembly Committee on Transportation.

DEPARTMENT OF EDUCATION



No. 300

FISCAL IMPACT OF CALIFORNIA'S YEAR-ROUND SCHOOL PROGRAM October 5, 1977

Fifty-six California public school districts operate approximately 200 schools on year-round programs. The primary fiscal advantage of year-round schools (YRS) is that some YRS class schedules can accommodate up to one-third more students at an existing school facility than is possible with a traditional nine-month class schedule. However, unless YRS schedules alleviate overcrowding and/or avoid capital investments in new facilities, the use of YRS will slightly increase the cost of education.

The State of California provides funds to local school districts based upon student attendance. Since student attendance is normally higher under a YRS schedule, state costs are also higher. We estimate that the 11 school districts included in our analysis were reimbursed \$1,000,500 more from the State School Fund during fiscal year 1975-76 than they would have been reimbursed had they operated totally traditional schedules. One district indicated that part of its motivation for implementing YRS was to increase its share of state support.

We recommend that the Legislature not provide to school districts the additional funds generated as a result of YRS, unless the Department of Education first identifies tangible educational benefits.

Report referred to Senate Committee on Education; Assembly Committee on Education.

FAIR POLITICAL PRACTICES COMMISSION

EFFICIENCIES AND ECONOMIES OF THE ADMINISTRATION OF THE POLITICAL REFORM ACT OF 1974

No. 704.1

EFFICIENCIES AND ECONOMIES OF THE ADMINISTRATION OF THE POLITICAL REFORM ACT OF 1974 August 16, 1977

The Political Reform Act was a ballot issue passed by the voters in 1974. The Fair Political Practices Commission (FPPC) was established by the Act and began operations in January 1975. Much of the Commission's effort during the first two years of operation was devoted to developing material describing the Act and its impact; to informing affected parties of the Act's provisions; and to establishing working relationships among the Commission, the Franchise Tax Board (FTB), and the Attorney General.

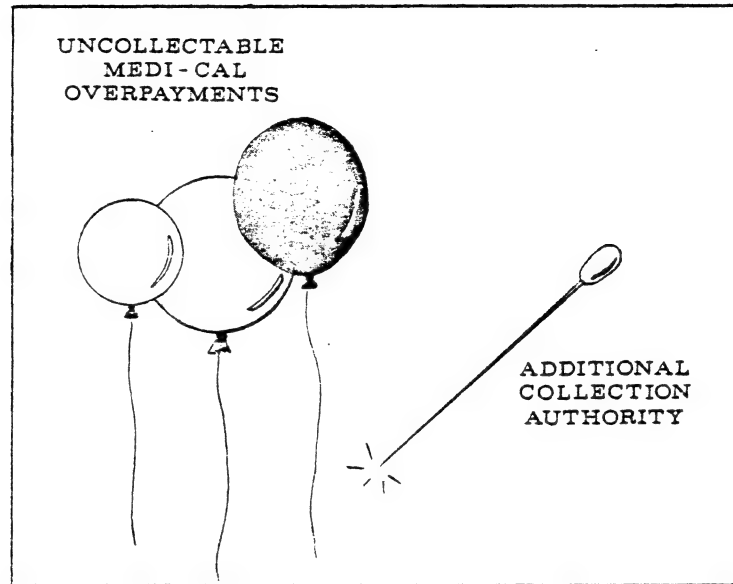
The report contains several recommendations to improve administration of the Act. The major recommendations are:

- (1) The FTB should randomly select candidates, campaigns and lobbyists for audits rather than auditing at the 100 percent level,
- (2) The FTB should develop workload estimating techniques and adjust staffing annually based on new workload estimates,
- (3) The FPPC should substantially increase its enforcement investigation and follow-up activities,
- (4) The FTB should implement several audit management techniques to reduce the elapsed time required to complete audits, and
- (5) The Secretary of State should improve controls over documents required to be filed under the Act.

This report was prepared by Arthur Andersen & Co. under a contract with the Joint Legislative Audit Committee.

Report referred to Senate Committees on Governmental Organization and Elections and Reapportionment; Assembly Committee on Elections and Reapportionment.

HEALTH & WELFARE AGENCY



No. 240.3

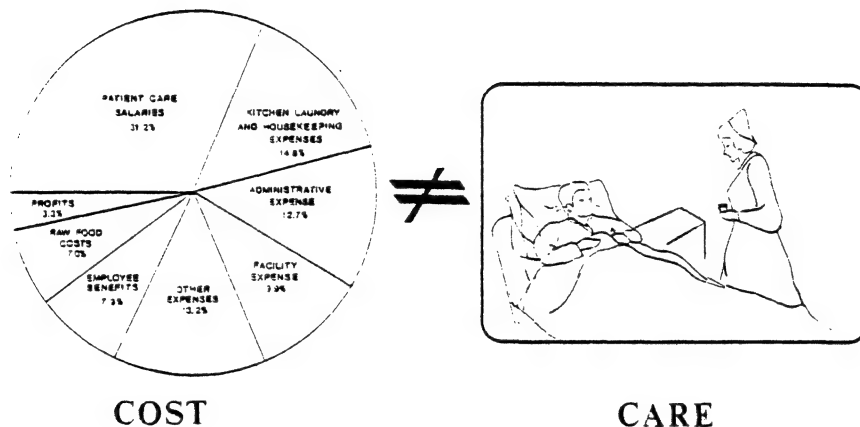
THE DEPARTMENT OF BENEFIT PAYMENTS
LACKS ADEQUATE AUTHORITY TO COLLECT AMOUNTS DUE
THE MEDI-CAL PROGRAM
May 16, 1977

The Department of Benefit Payments, through its contract with the Department of Health, is responsible for recovering amounts due to the Medi-Cal program. However, gaps in Department authority result in program losses.

The Department lacks statutory authority to effectively (1) recover Medi-Cal payments made on behalf of ineligible beneficiaries, and (2) recover overpayments to Medi-Cal program providers. Also, the Department has insufficient notice to collect overpayments made to hospitals which change ownership.

We have recommended specific legislative action to reduce program losses.

Report referred to Senate Committee on Health and Welfare; Assembly Committee on Health.



No. 275.1

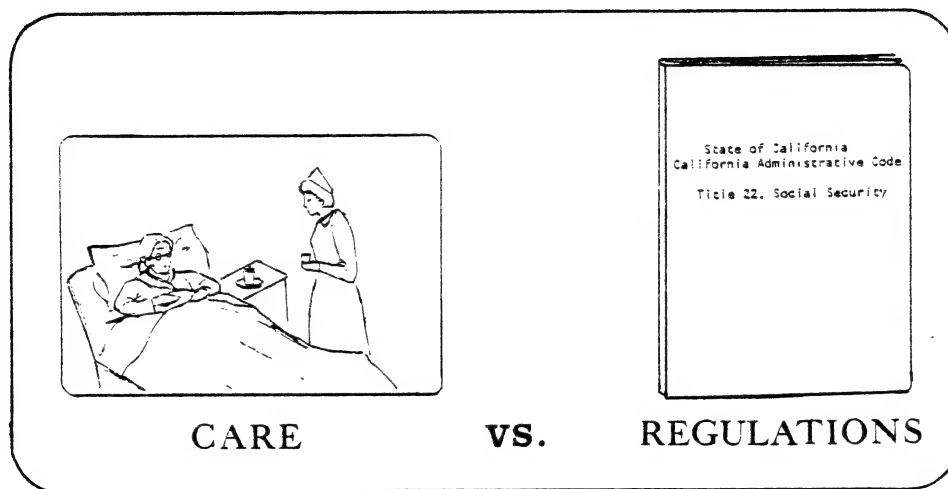
LONG-TERM CARE FOR THE AGED January 17, 1977

We reviewed the cost of patient care, profitability of operations, and the State's role in funding publicly supported care in skilled nursing facilities.

We found serious deficiencies in Department of Health procedures for establishing reimbursement rates for skilled nursing services. There were also wide fluctuations in the per patient day costs which raised questions as to which differences may exist in the services provided and whether nursing homes are overpaid or underpaid. The Department has not developed adequate procedures to determine whether there is a correlation between a skilled nursing facility's cost of patient care and the quality of care provided to Medi-Cal patients at public expense.

We recommended that the Department identify the individual components of care that a Medi-Cal patient can reasonably be expected to receive and develop the cost of providing that standard of care as a basis for reimbursement of costs to skilled nursing facilities. We made several suggestions as to how the Department might accomplish this.

Report referred to Senate Rules Committee; Assembly Committee on Health.



No. 275.2

LONG-TERM CARE FOR THE AGED
(PART TWO)
October 7, 1977

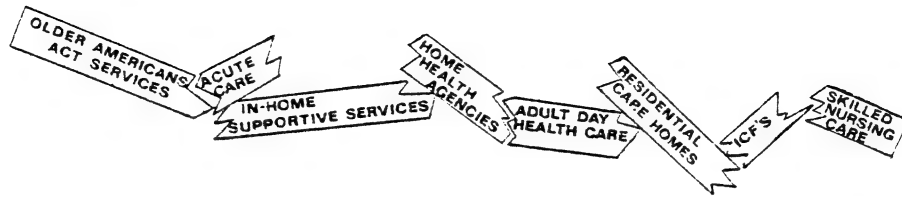
This is the second in a series of reports addressing long-term care for the aged. The present system for enforcing quality care in skilled nursing facilities is ineffective. The Department of Health has not developed the procedures necessary to identify possible criminal violators. Further, there are weaknesses in the enforcement of violations in courts and in legislation concerning the imposition of civil sanctions against repeat violators.

Additionally, the Attorney General and the Department of Health have not promptly prepared accusations to revoke skilled nursing facility licenses nor promptly filed civil complaints to enforce citations and collect penalties.

We recommend the Department of Health develop procedures to (1) detect repeat violators and patterns of noncompliance, (2) expedite preparation of legal actions, and (3) document complaints. We also recommend the Legislature consider imposing automatic fines against facilities which repeatedly violate the same regulations.

Report referred to Senate Committee on Health and Welfare; Assembly Committee on Health.

CONTINUUM OF SERVICES FOR THE ELDERLY?



No. 275.3

LACK OF A PLANNED, INTEGRATED SYSTEM OF SERVICES FOR THE ELDERLY December 30, 1977

This is the last in a series of reports concerning long-term care for the elderly. This report focuses on the long-term care and supportive services available to the elderly who might be prematurely or unnecessarily institutionalized if these services were not provided.

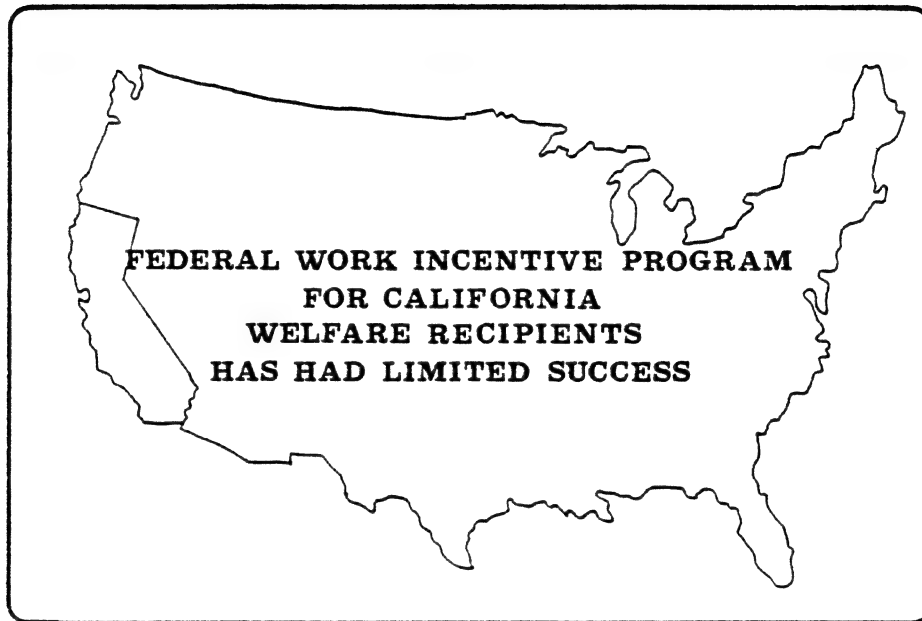
A planned, integrated system of services for the elderly does not yet exist in California. Without such a system it is impossible to assure that unnecessary or premature institutionalization will not occur.

Some of the conditions pointing to this lack of an integrated system of services are:

- (1) The limited number of intermediate care beds
- (2) The manner in which construction of additional nursing homes is planned
- (3) The limited use of in-home health services
- (4) Diffused responsibility for delivering services to the elderly
- (5) The lack of consolidated information on the needs of and services provided to the elderly.

We recommend the Legislature direct the Health and Welfare Agency to require a statewide identification of the needs of the low-income elderly population. This identification of needs would be the first step toward developing a comprehensive system of long-term care and supportive services for the elderly.

Report referred to Senate Rules Committee; Assembly Committee on Human Resources.



No. 276.2

FEDERAL WORK INCENTIVE PROGRAM FOR
CALIFORNIA WELFARE RECIPIENTS
HAS HAD LIMITED SUCCESS
March 29, 1977

The federal Work Incentive Program (WIN) for California welfare recipients has had limited success. Federal regulations leave little room for state administrative discretion in making changes to improve program effectiveness. Of the 387,633 cumulative WIN registrants in the 15 months ending September 30, 1976, only 46,133 entered employment. Up to 70 percent of these people found jobs largely through their own efforts.

We identified several factors which have limited program effectiveness. The WIN and Comprehensive Employment and Training Act (CETA) Programs are not effectively coordinated. Also, federal regulations place program emphasis on the most employable, who actually benefit least from the program, and welfare regulations provide a disincentive for unemployed fathers to go to work.

Report referred to Senate Committee on Health and Welfare; Assembly Committee on Human Resources.



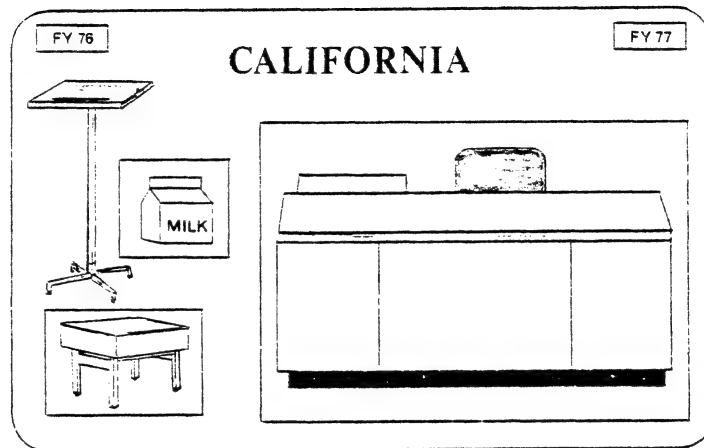
No. 282.1

AN OPERATIONAL AUDIT OF
CALIFORNIA CORRECTIONAL INSTITUTIONS
March 14, 1977

California's adult correctional institutions are responsible for confining sentenced felons and providing them care and treatment while they are in custody. Analyses were conducted at nine of California's twelve adult correctional institutions and covered all institutional security classifications: maximum, medium and minimum. The operations of correctional officers and correctional counselors were audited, inmate wages were analyzed and the management of the Inmate Welfare Fund was addressed.

Recommendations included earlier retirement for correctional officers and lump sum sick leave benefits upon retirement; smaller correctional counselor caseloads and an upgrading of that series; introduction of a combined custody/counselor series in a medium/maximum security prison; and changes in the management of Inmate Welfare Fund activities.

Report referred to Senate Committee on Judiciary; Assembly Committee on Criminal Justice.



No. 282.4

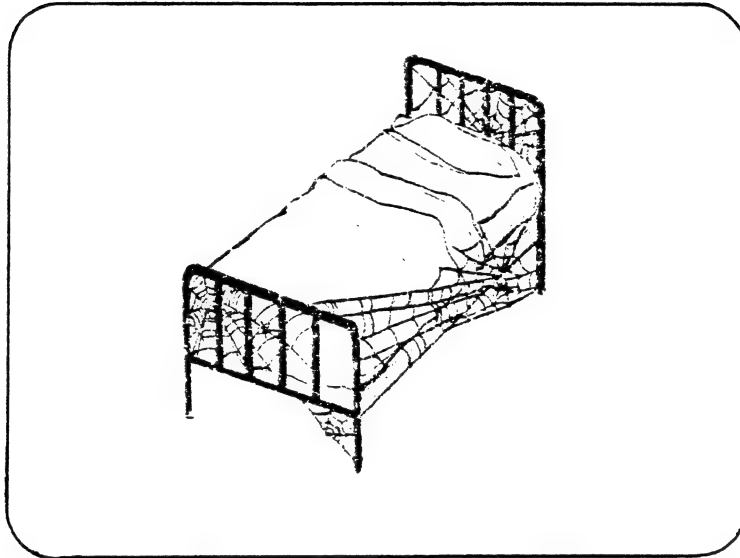
DEFICIENCIES IN CORRECTIONAL INDUSTRIES
PRODUCT COST DETERMINATIONS
December 19, 1977

Correctional Industries constitutes a work activity program to employ prison inmates in the production of goods that are sold to state and local government industries. As of June 30, 1977, 31 correctional industries were operating in 11 of the State's 12 correctional institutions.

The profits and losses of individual industries as reported by Correctional Industries are inaccurate because its cost accounting system does not assign support costs to specific industries. The cost accounting system charges direct production costs to each industry but does not allocate indirect costs of administration, accounting and marketing in a manner that reflects actual effort expended for these functions. We allocated these indirect costs to individual industries and found that 18 of 28 industries operated at a combined net loss of \$1.5 million in fiscal year 1976-77. The other 10 industries operated at a combined net profit of \$1.2 million.

Implementing a cost accounting system which determines the profitability of individual industries would enable Correctional Industries to assess the cost of each industry as it relates to the program. A cost assessment on a separate industry basis would enable management to better direct each industry and the program toward meeting its objectives.

Report referred to Senate Rules Committee; Assembly Committee on Criminal Justice.



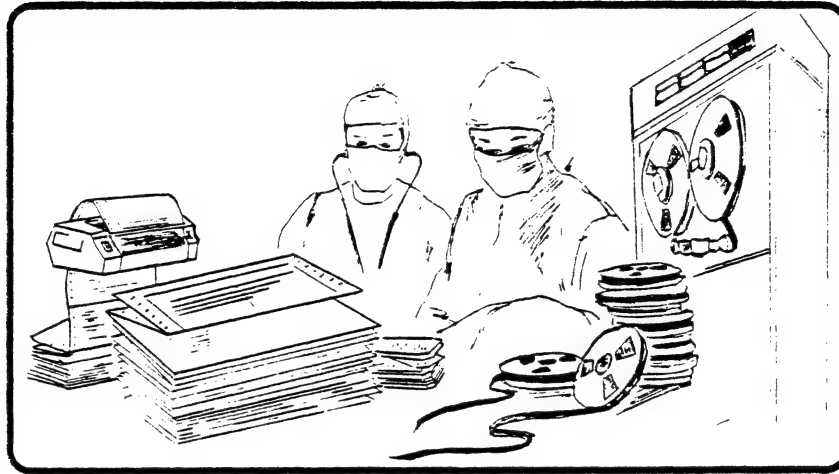
No. 283

HOSPITAL BED CAPACITY February 28, 1977

California legislation has provided a mechanism to attempt to control increasing excess hospital bed capacities; however, its effectiveness has been minimal. During the five-year period from April 1, 1971 through March 31, 1976, excess hospital beds statewide increased from 11,318 to 19,007.

Legislation provides that no hospital which adds unauthorized beds shall be entitled to receive, or shall receive, any payment whatsoever from the Director of the Department of Health, or from any prepaid health plan, for services rendered to a Medi-Cal program beneficiary. Eight hospitals were identified as having increased bed capacity without proper authorization and as of June 30, 1976, had received \$15.4 million in Medi-Cal payments in violation of the Welfare and Institutions Code.

Report referred to Senate Rules Committee; Assembly Committee on Health.



No. 286.1

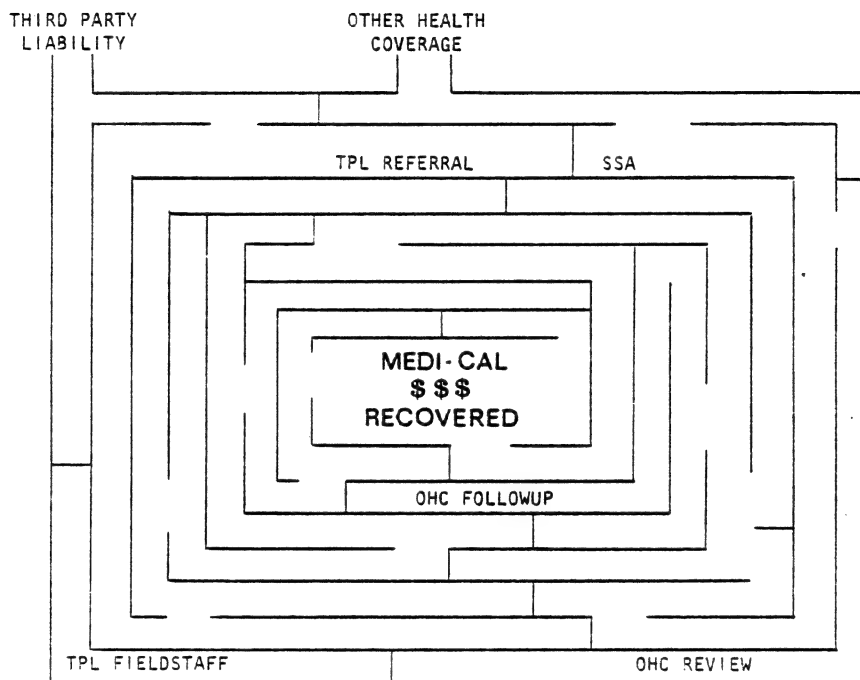
COSTS AND REVENUES OF THE MEDI-CAL
CLAIMS PROCESSING SUBCONTRACT
January 28, 1977

The State of California has contracted with a fiscal intermediary to provide for processing and payment of medical billings for services incurred under the Medi-Cal program. Since 1969 the computer processing of Medi-Cal claims has been performed under subcontract to the fiscal intermediary by EDS Federal Corporation of Dallas, Texas.

During the last three fiscal years, the rate of profit after taxes expressed as a percentage of revenues on Medi-Cal was nearly double the rate on all other EDS activities, including other government health care operations; however, in the first four years of the contract, the Medi-Cal profit rate was equal to or lower than the EDS corporate-wide rate. We also found that the Medi-Cal subcontract had not been monitored by the Department of Health although that is the agency responsible for the administration of the Medi-Cal program.

We recommend that the Department of Health obtain claims processing services either through competitive bidding, negotiated fixed-price plus incentive contract, or some modification of other procedures.

Report referred to Senate Rules Committee; Assembly Committee on Health.



No. 286.2

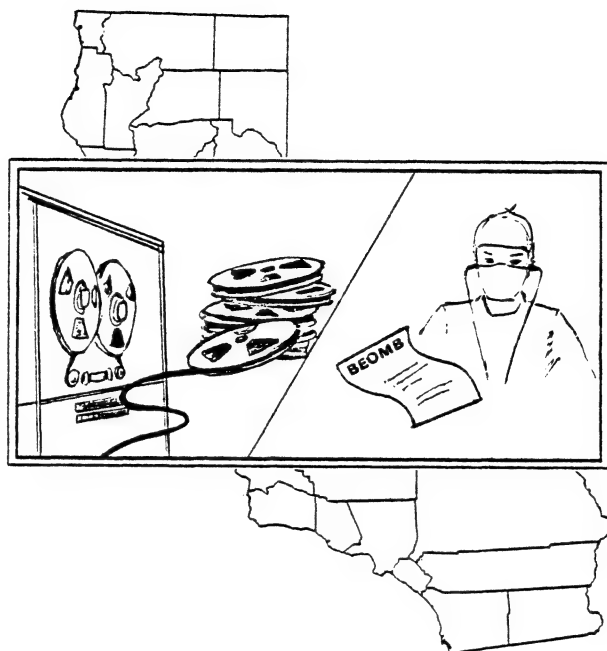
A MANAGEMENT ANALYSIS OF THE THIRD PARTY LIABILITY AND OTHER HEALTH COVERAGE PROGRAMS March 22, 1977

The State of California's Third Party Liability and Other Health Coverage Programs are intended to recover Medi-Cal payments from liable third parties.

We found that inadequate reporting of third-party cases, and duplication of identification and recovery activity by the Third Party Liability Unit and the Health Recovery Bureau, result in additional Medi-Cal administrative costs and lost third-party recoveries. Further, the Medi-Cal program is incurring losses due to inadequate procedures regarding recipients who have other health insurance. An estimated minimum loss of \$5 to \$7 million results from inadequate identification of beneficiaries with health insurance.

We have recommended corrective action to be taken by the Departments of Health and Benefit Payments.

Report referred to Senate Committee on Health and Welfare; Assembly Committee on Health.



No. 286.4

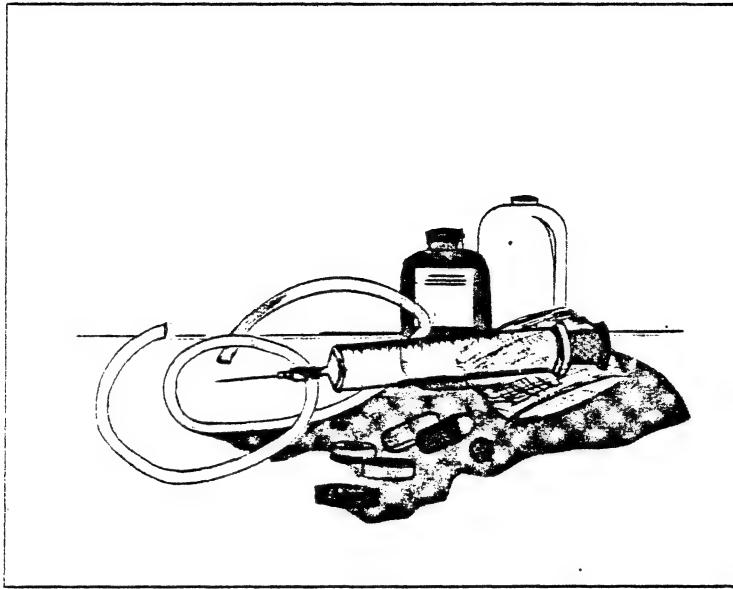
UTILIZATION CONTROL FUNCTIONS OF THE
MEDI-CAL PROGRAM (U.S. TITLE XII)
July 19, 1977

The Department of Health is responsible for administering the Medi-Cal program in California. Our analysis of selected functions which control utilization of the program revealed that the Department's refusal to issue Beneficiary Explanation of Medical Benefits (BEOMBs) has resulted in a net loss to the State of \$3.5 million in federal funds. In addition, provider and beneficiary program abuse has not been effectively controlled, and some reports produced by the utilization review system are inadequate. We also found that payments for hospital services have been made which would have been denied under retrospective denial--a program eliminated by the Department in September 1975.

The results of a sample of paid claims indicated that the State's fiscal intermediaries claim preparation and review function, and the system of prepayment claim review, operated effectively.

We have recommended specific departmental action to correct these deficiencies.

Report referred to Senate Rules Committee; Assembly Committee on Health.



No. 291

A CATALOGUE OF SOURCES AND USES OF FEDERAL AND STATE
DRUG ABUSE FUNDS IN CALIFORNIA

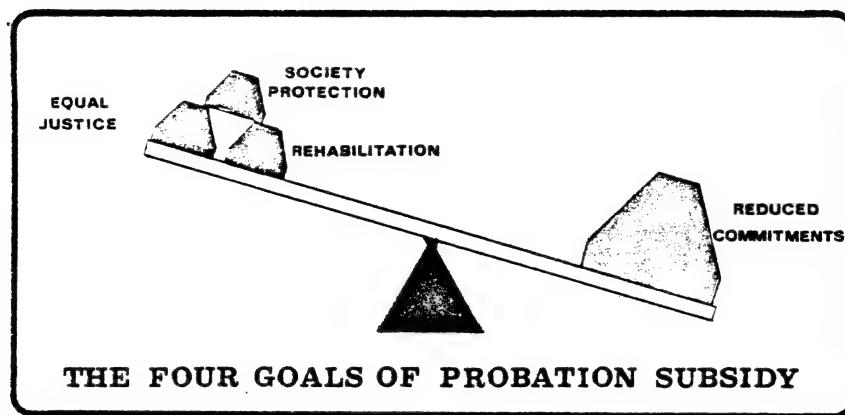
May 16, 1977

Currently there are at least 34 federal and state agencies involved in narcotic and drug abuse programs in California. These programs include care, treatment and rehabilitation; education and prevention; research, training and manpower development; special projects; and control, enforcement and regulation.

During fiscal year 1975-76 federal and state government agencies spent over \$108 million on narcotic and drug abuse programs in California. This amount excludes activities related to enforcement or regulation. Federal expenditures totaled an estimated \$52.8 million and state expenditures totaled an estimated \$56 million during that period.

This catalog identifies the sources of funding for narcotic and drug abuse programs in California at the federal and state government levels. Narcotic and drug abuse programs as defined in this catalog do not include programs related to alcoholism. Expenditures by local government agencies, private groups or foundations for narcotic and drug abuse programs are not included in this catalog. In addition, no attempt was made to place a dollar value on those government narcotic and drug abuse program activities related to control, enforcement or regulation.

Report referred to Senate Committee on Health and Welfare; Assembly Committee on Criminal Justice.



No. 293

PROBATION SUBSIDY PROGRAM
March 23, 1977

The California Legislature established the Probation Subsidy Program (PSP) on January 1, 1966. The program is intended to provide state funds to county probation departments to support local treatment services to persons who might otherwise become wards or inmates at state institutions. The California Youth Authority (CYA) is charged with administering the program.

Our review indicated that the program's three qualitative goals are not being measured or met. The program's quantitative goal of reduced commitments is being pursued; however, the PSP subsidy formula inequitably distributes funds among the counties. Further, the failure of the CYA to change or develop new standards for the PSP has left individual counties to fill the state leadership gap without the advantage of statewide experience.

We have recommended changes to the subsidy formula, program standards and evaluation process. An alternative funding formula has also been included for consideration.

Report referred to Senate Rules Committee; Assembly Committee on Criminal Justice.



No. 712

AN OPERATIONAL REVIEW OF THE SOLANO INSTITUTE FOR
MEDICAL AND PHARMACOLOGICAL RESEARCH

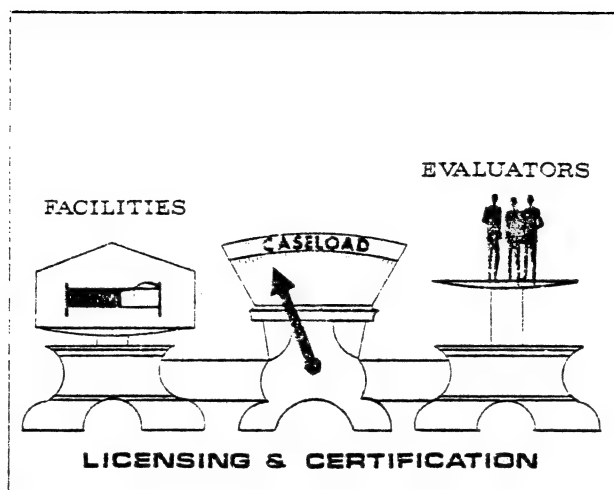
November 7, 1977

The Solano Institute for Medical and Pharmacological Research (SIMPR) is a nonprofit corporation which sponsors and conducts basic and applied medical and pharmacological research. Inmate volunteers serve as the subject group for the research studies and receive financial compensation for participating. Currently, SIMPR has a five-year agreement ending May 31, 1981 with the State of California, Department of Corrections, California Medical Facility, Vacaville.

The selection policies used by SIMPR, however, do not allow all inmates an equal opportunity to participate in research. Inmates who work for SIMPR as clerks or laboratory technicians participate more frequently in research projects and receive greater total compensation than other inmate volunteers.

We also found that system control deficiencies in the research program allow the potential for multiple interests to occur when SIMPR Board members are included in both the approval and conduct of research projects. It would be more appropriate if each level in the approval process functioned as a control over that process and the previous review levels to ensure that research objectives are being met.

Report referred to Senate Rules Committee; Assembly Committee on Criminal Justice.



No. 722

OPPORTUNITIES TO IMPROVE THE DEPARTMENT OF HEALTH'S
EVALUATION OF COMMUNITY CARE FACILITIES
November 14, 1977

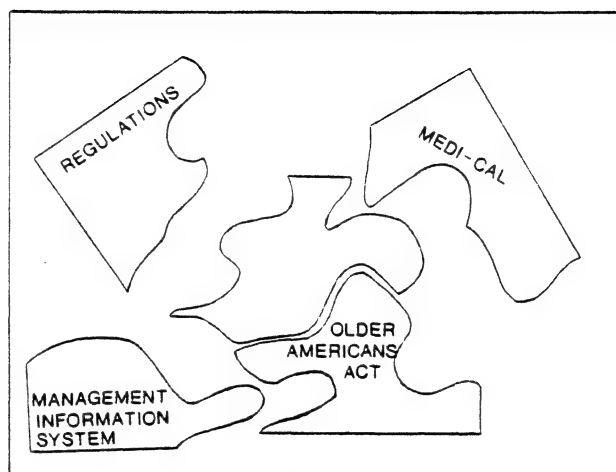
The Licensing and Certification Division of the Department of Health is responsible for conducting annual evaluations of community care facilities to ensure that quality care is being provided. The Division has failed to conduct annual evaluations, and this failure may adversely impact on the quality of care or endanger residents.

In our opinion, the failure to conduct annual evaluations results from understaffing and inappropriate caseload standards. As of September 30, 1977, the Division's district offices had 22 vacant positions. Also, current caseload standards may not accurately reflect the time needed to review facilities. In determining caseload standards, sufficient consideration is not given to the time an evaluator must spend on activities unrelated to facility evaluations.

Further contributing to the Division's workload is the fact that the county welfare departments are returning to the State the responsibility for licensing small facilities. Since July 1976, about 3,000 facilities have been turned back to the State.

We have recommended that the Department of Health fill the 22 vacant positions and develop accurate caseload standards.

Report referred to Senate Committee on Health and Welfare; Assembly Committee on Health.



No. 733

AN UPDATED REVIEW OF THE IN-HOME
SUPPORTIVE SERVICES PROGRAM,
December 9, 1977

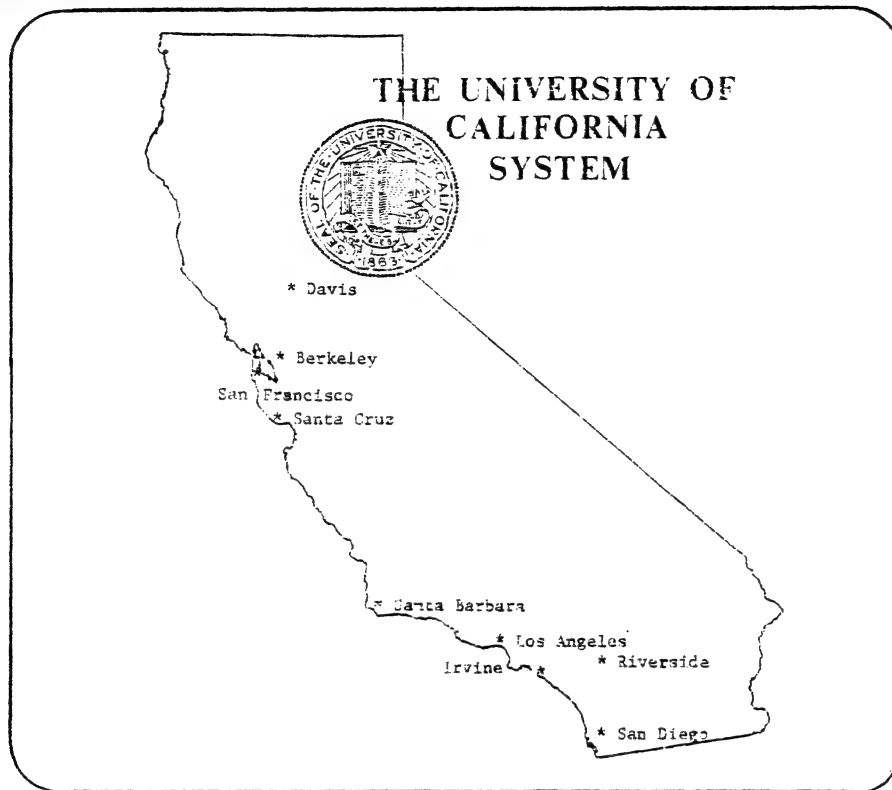
The In-Home Supportive Services Program provides assistance to certain infirm aged, blind or disabled adults. In-home supportive services include housekeeping services, meal preparation services and nonmedical personal services.

Problems identified in our previous reviews of this program in 1975 and 1976 still exist nearly two and one-half years later. Specifically, a comprehensive management information system has not yet been implemented, and program regulations have not yet been adopted. Only limited use has been made of available Older American Act funding, and the total fiscal impact of Title XIX (Medicaid) funding has not been determined.

We recommend the Department of Health prepare a report on the solutions to these problems and their implementation and submit it to the Legislature by March 31, 1978.

Report referred to Senate Committee on Health and Welfare; Assembly Committee on Human Resources.

UNIVERSITY OF CALIFORNIA



No. 715.2

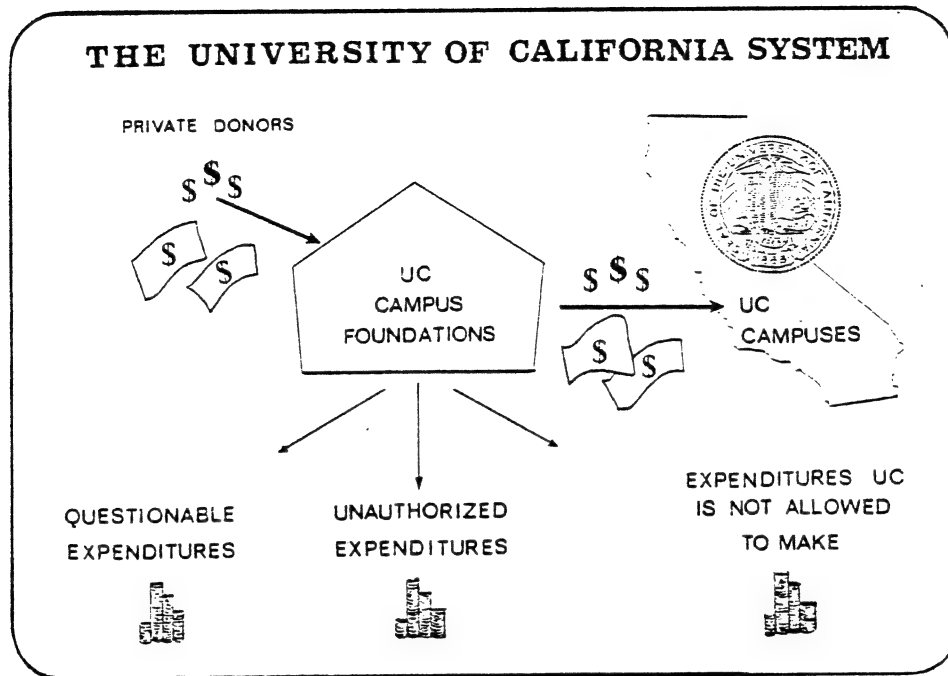
THE UNIVERSITY OF CALIFORNIA SYSTEM: PATENT AND ROYALTY PROGRAM October 6, 1977

The patent program of the University of California is administered by the Board of Patents. Royalties are paid by commercial firms which are licensed to manufacture and sell university inventions.

The University of California's policy of sharing 50 percent of net royalty income with the inventor, who is also a salaried university employee, is more generous than the policies of most similar research institutions we contacted. We believe that the University's intent in establishing its royalty distribution policy--namely, to ensure that "fortuitous by-products" of research which may have commercial value are disclosed to the University--can be met without providing a sharing formula greater than that used by most similar institutions.

We also found that the University should review all licensees to ensure that royalty payments are accurate and in compliance. Their failure to do so had resulted in a \$66,500 underpayment which we identified. The University should include penalty provisions for nonpayment or late payment of royalties in future license agreements.

Report referred to Senate Committee on Education; Assembly Committee on Education.



No. 715.3

THE UNIVERSITY OF CALIFORNIA SYSTEM:
THE FOUNDATIONS' EXPENDITURES
NEED REVIEW AND CONTROL
December 27, 1977

The University of California (U.C.) has nine campus-affiliated foundations which are organized to solicit gifts, endowments and other financial assistance on behalf of the U.C. Regents. Although all of the campus foundations are separately organized under the General Non-Profit Corporation Law of California, they are closely associated with the U.C., have offices on campus, and often use university assets rent-free.

We found that foundations have made certain expenditures which would not have been allowed if they were made out of university-controlled or state funds. These expenditures, which totaled about \$90,000 for fiscal years 1975-76 and 1976-77, included first-class travel, entertainment and membership fees for social organizations.

We also found that foundations have inadequately controlled the disbursement of funds and have failed to disclose certain expenditures to the IRS. These expenditures resulted primarily from a lack of internal control by appropriate foundation and university officials.

We recommend that the University adopt a consistent policy to assure that all campus foundations expend funds in conformity with U.C. policies and establish controls over the funds as necessary.

Report referred to Senate Rules Committee; Assembly Committee on Education.

MISCELLANEOUS



No. 284.2

OPPORTUNITIES TO IMPROVE MANAGEMENT OF THE STATE BAR OF CALIFORNIA

January 18, 1977

In 1974 the Auditor General reported a significant under-utilization of the State Bar's facilities and an inefficient use of some of the Bar's staff attorneys. Our current review has indicated virtually no improvement in either situation.

In addition, the current review shows significant inefficiency in the management of the State Bar Journal, which should be economically self-sufficient rather than cost the Bar \$126,000 annually, as it is currently budgeted.

Our review also disclosed that the State Bar should not need to charge a Client Security Fund fee in 1977 because a sufficient balance has already been established. Finally, the State Bar is not properly charging the costs of administering the Client Security Fund to that fund, which results in an inequitable charge to the Bar's General Fund programs of at least \$27,000 annually.

Report referred to Senate Rules Committee; Assembly Committee on Judiciary.



No. 296.2

A MANAGEMENT REVIEW OF REGISTRATION,
EXAMINATION AND DISCIPLINE, STATE BAR
December 16, 1977

This review of the State Bar focuses on the effectiveness of the State Bar's two major regulatory programs: licensing attorneys and disciplining attorney misconduct; and the membership fee level necessary in 1978.

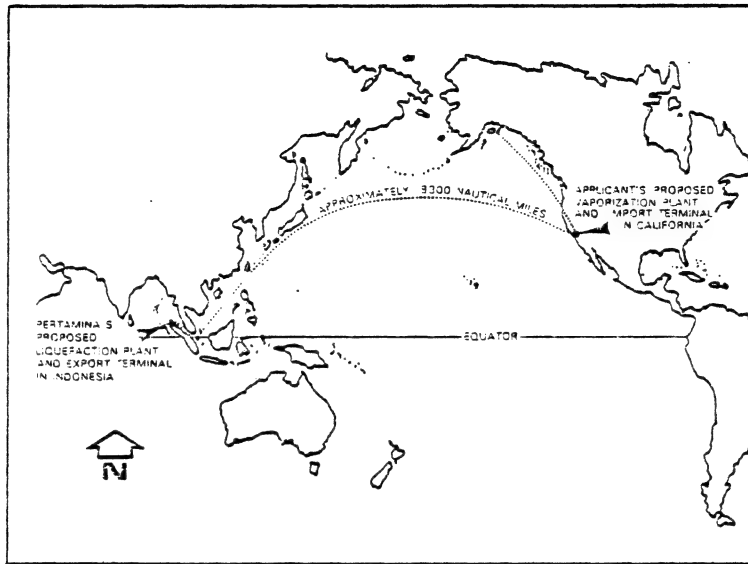
We found that a legislative requirement that non-attorney applicants for admission must register with the State Bar when they begin law studies is unnecessary for most law students. The main purpose of registering law students is to monitor the progress of students attending unaccredited law schools. Since the majority of law students attend accredited schools, most of the registrations are unnecessary. Registration fees generated \$74,000 in revenue in 1976.

The American Bar Association has recommended abandoning the use of volunteer attorneys in favor of paid staff attorneys as prosecutors in attorney misconduct disciplinary hearings. However, two-thirds of formal disciplinary prosecutions are still conducted by volunteer attorneys. We were unable to obtain an explanation of the State Bar's slow progress in reducing the use of volunteers.

Our review also disclosed that the grading of the essay portion of the General Bar Examination is inconsistent with the 70 percent passing score established by the Bar's Committee of Bar Examiners. The Committee only re-scores the essays of examinees who initially score just below passing. Exams which initially score just above passing are not re-scored. This results in a biased grading system which lowers the actual grading standard below the official 70 percent passing score set by the Committee.

State Bar data suggest that the State Bar will have considerable financial flexibility in 1978. Lower membership fees than charged in 1977 may be sufficient.

Report referred to Senate Rules Committee; Assembly Committee on Judiciary.



No. 718

ALTERNATIVE FINANCING METHODS OF LIQUEFIED NATURAL GAS PROJECTS August 22, 1977

Applications have been filed with the Federal Power Commission (FPC) for projects to transport liquefied natural gas from Indonesia and Cook Inlet, Alaska, to California. Sponsors of the projects acknowledge that the amount of money needed to construct the projects' facilities precludes financing by the traditional utility method. Instead, they seek authorization to bind gas consumers' credit to obtain construction funds.

This would be accomplished through an "all events, cost-of-service tariff." The tariff would compel gas consumers to pay all project costs including profits to the sponsors beginning approximately four years before the gas begins to flow. Consumers' payments would continue even if the projects were unsuccessful and no gas was received.

Since the federal applications for certification of the projects were filed in 1973 and 1974, the FPC has considered a number of major financial issues which must be resolved. However, only vague references have been made in the FPC hearings to a viable alternative to the all events, cost-of-service tariff; that is, government finance.

Government financing of the LNG projects could save between \$1.4 billion and \$2.3 billion under the financing costs proposed by the sponsors. The Legislature could consider a ballot measure to enable voters to decide if the State should finance the proposed projects and thereby enable gas consumers to realize these savings.

Report referred to Senate Rules Committee; Assembly Committee on Resources, Land Use and Energy.

LETTER REPORTS

AGRICULTURE & SERVICES AGENCY

No. 235.5

DRY BEAN RESEARCH AND MARKETING PROGRAM January 18, 1977

Ambiguity in Section 59086 of the Food and Agriculture Code has led to uncertainty as to whether the 1974 referendum ballot was sufficient to authorize reapproval of the Dry Bean Research and Marketing Program.

Section 59086 requires that 40 percent of the total number of producers must vote in the referendum. In the 1974 referendum, only 30 percent of the total number voted, however, the majority of those voting favored continuation of the program. The Legislative Counsel maintains that this is an insufficient number to approve the marketing order. The Department's position is that the reapproval of the marketing order is in accordance with the terms of the Dry Bean Research and Marketing Program, which provides that 50 percent of the ballots cast is sufficient to continue the program. The section should be amended to eliminate the ambiguity.

We also found that this program is administered by a private consulting firm retained without a written contract. Members of this firm approve all program cash disbursements, including payments to the firm. The Department of Food and Agriculture should require the Dry Bean Advisory Board to enter into written contracts for services provided. The contract should specify all services the firm is to perform and the amount of payment they are to receive.

Report referred to Senate Committee on Agriculture and Water Resources; Assembly Committee on Agriculture.

No. 285.3

REVIEW OF STATE PRINTING AND REPRODUCTION NEEDS AND COSTS December 23, 1977

This is the last in a series of four reports issued this year concerning state printing and reproduction costs. This report presents a general survey of the State's printing and reproduction needs and costs.

Through questionnaire responses, we found that \$24.2 million was expended for state printing and reproduction needs during fiscal year 1975-76. The Office of State Printing was the major source of production, printing slightly over two-thirds of the total volume. The next largest source of production was the in-house reproduction units of the various agencies.

Nearly all agencies responding to our questionnaire were satisfied with the quality of printing received from the Office of State Printing. Only half, however, were satisfied with the timeliness of the service provided. Many agencies indicated that it is not uncommon to wait eight weeks or longer to receive completed printing orders.

Report referred to Senate Rules Committee; Assembly Speaker's Office.

No. 303

COST ACCOUNTING AND BILLING SYSTEM
OF THE OFFICE OF STATE PRINTING
November 14, 1977

The Department of General Services is responsible for the administration and management of the Office of State Printing (OSP); however, operations are under direct control of the State Printer, who is appointed by the Governor. The OSP provides printing services to the Legislature and all other state agencies except the University of California.

Based upon our review of the cost allocation system and billing procedures of OSP, we believe that, with the exception of certain depreciation overcharges, the cost allocation methods for services performed are equitable for the legislative biennial year ended December 31, 1976.

The depreciation overcharges were caused by inadequate depreciation records and the Department of General Services' failure to properly account for fully depreciated equipment. As a result of the depreciation overcharges, the Legislature and other state agencies were overbilled at least \$370,000. The Department should review all of its depreciation rates and make the necessary adjustments in the depreciation accounts.

Report referred to Senate Rules Committee; Assembly Committee on Governmental Organization.

No. 716.1

THE DEPARTMENT OF FOOD AND AGRICULTURE'S
DIRECT MARKETING PROGRAM
July 18, 1977

The Direct Marketing Program was implemented on April 1, 1976 to bring California consumers into direct contact with farmers. The Department's role in implementing the Direct Marketing Program is advisory and promotional.

The Department of Food and Agriculture reports the following results from the Direct Marketing Program's first year of operation.

- The toll-free number provided go-between services for 28,000 consumers and 266 farmers which resulted in sales of about 1,350 tons of produce
- The monthly subscriptions to the Direct Marketing Producer Newsletter increased from 285 to 1,500
- About 20 farmers' markets and six farm trails are now in operation to facilitate direct consumer-farmer transactions.

Until greater program experience provides a base for evaluation, comment on the overall effectiveness of the program would be premature.

Report referred to Senate Rules Committee; Assembly Committee on Labor, Employment and Consumer Affairs.

BUSINESS & TRANSPORTATION AGENCY

No. 711

ACTIVITIES OF CALIFORNIA HOUSING FINANCE AGENCY
December 30, 1977

This report is submitted in accordance with Section 41365 of the Health and Safety Code of the State of California. This section requires the Joint Legislative Audit Committee to report on the activities of the California Housing Finance Agency (CHFA) within 90 days following receipt of the Agency's annual report. The Committee's report is based primarily upon examination and evaluation of the Agency's annual report.

The CHFA was created to meet the housing needs of persons and families of low or moderate income. The Agency operates a wide variety of programs lending and insuring mortgages to make them available at lower-than-market interest rates.

This report presents some of the Agency's achievements and problems during 1976-77, the Agency's first full year of operation.

Report referred to Senate Rules Committee; Assembly Committee on Housing and Community Development.

DEPARTMENT OF EDUCATION

No. 305

VOCATIONAL EDUCATION

March 18, 1977

The Education Code requires an annual audit of each school district to be conducted by a licensee of the State Board of Accountancy. The audit guidelines require an opinion on costs charged against the vocational Education Act as well as costs charged against other federal programs. After the 1973 annual audit, the Vocational Education Support Unit of the Department of Education retained a firm of certified public accountants to audit the vocational education expenditure claims of 11 districts. Officials maintained the annual audits did not provide the necessary management information.

The Vocational Education audits raised concern about the adequacy of the annual district audits. The Vocational Education audits revealed that the auditors performing the annual district audits did not take exception to any expenditures claimed against the Federal Vocational Education Act funds. However, the Vocational Education audits of the same districts' expenditures indicated that \$24,909 of the \$2.9 million in Federal Vocational Education Act funds should be disallowed for various reasons.

Report referred to Senate Rules Committee; Assembly Committee on Education.

HEALTH & WELFARE AGENCY

No. 282.2

COST ANALYSIS OF CONDEMNED INMATE HOUSING FACILITIES June 27, 1977

We conducted a cost analysis of selected institutions within the State's correctional system. This report identifies the fiscal year 1975-76 costs to operate various special housing units, including facilities for condemned inmates at California State Prison at San Quentin and the California Institution for Women--Frontera (CIW).

This report is intended to provide cost information to the Legislature; consequently we make no recommendations at this time. A second report in this area, issued in October 1977, presents a comparative statement of special housing unit costs at the California State Prison at Folsom, the Correctional Training Facility--Soledad, the Deuel Vocational Institution--Tracy and the California State Prison at San Quentin.

Our analysis at San Quentin and CIW revealed significantly higher costs for fiscal year 1975-76 to house inmates in special housing units as compared to the cost of housing inmates in the general population. These higher costs are primarily attributable to the increased staff necessary to provide high levels of security in these units.

Report referred to Senate Rules Committee; Assembly Committee on Criminal Justice.

No. 282.3

COST ANALYSIS OF SELECTED FACILITY HOUSING UNITS DEPARTMENT OF CORRECTIONS October 13, 1977

We conducted a cost analysis of selected facility housing units in the California Department of Corrections. This is an informational report in that we have compared the differing costs between institutions, but have made no recommendations concerning the costs presented.

We found that the cost of housing inmates is directly related to the level of custody required. Inmates who pose a threat to other inmates or to the institution staff may, for varying periods of time, be assigned to a special security housing unit. These units are designed to maintain a high level of

custody, and therefore, the ratio of correctional staff to inmates is higher than in any of the other housing units. The cost of maintaining an inmate in a security housing unit is generally double the cost of maintaining an inmate in the general population. The per inmate housing cost for the general populaion is lower than for the higher security units primarily because of the lower custody staff levels required.

Report referred to Senate Rules Committee; Assembly Committee on Criminal Justice.

No. 306.1

IMPACT OF ALTERNATIVE FEE SCHEDULES,
BUSINESS ENTERPRISE PROGRAM
July 18, 1977

The Department of Rehabilitation's Business Enterprise Program (BEP) constructs and supervises vending stand and food service facilities and acts as the licensing agency which authorizes the legally blind to operate on government locations and in private industry.

To support vending stand operations the BEP collects fees based on monthly gross sales from blind operators. Fees based on gross sales do not allow for variations in vending stand operating costs. As a result, operators with approximately the same net income may be charged significantly different fees. A fee based on net proceeds which takes into consideration the disparity between net income and fees paid has been proposed by the Legislature. A number of alternative fee schedules based on net proceeds are available and are outlined in the report.

Report referred to Senate Rules Committee; Assembly Committee on Human Resources.

No. 306.2

REVIEW OF THE BUSINESS ENTERPRISE
PROGRAM'S EQUIPMENT PURCHASES
December 16, 1977

The Department of Rehabilitation's Business Enterprise Program (BEP) constructs and supervises vending stand and food service facilities and acts as the licensing agency which authorizes the legally blind to operate on government locations and in private industry.

This report answers the Legislature's specific questions on the purchase of equipment for BEP and discusses weaknesses in program management. In July 1977, we issued a report on BEP's fee schedules, Letter Report 306.2, "Impact of Alternative Fee Schedules," and another report examining the program's financial statements and making an auditor's opinion thereon will be forthcoming.

We found that a physical inventory of BEP equipment conducted by the Department and a private firm revealed that the equipment records were understated by \$1.2 million. In addition, numerous recommendations made by the Department of Finance in a 1975 audit of program operations have not been implemented, and excessive costs have been incurred in constructing new facilities.

Report referred to Senate Rules Committee; Assembly Committee on Human Resources.

RESOURCES AGENCY

No. 716.2

USE OF EXEMPT POSITIONS BY THE DEPARTMENT OF PARKS AND RECREATION August 25, 1977

The purpose of this review was to determine the propriety of the use of the exempt positions authorized for the Chief Deputy Director of the Department of Parks and Recreation.

Section 11200 of the Government Code authorizes the Governor to appoint a Chief Deputy Director of the Department of Parks and Recreation. This appointee is currently serving as General Manager of Cal Expo. The Governor's appointment entitles the Chief Deputy Director to appoint a second exempt position pursuant to Article VII, Section 4(g) of the California Constitution. Section 11200 of the Government Code, however, does not restrict the use of this second position. The person filling this position is currently reporting to the Secretary of the Resources Agency.

According to the Director of Parks and Recreation, he has the administrative prerogative to direct the person appointed to an exempt position to report to any organizational function so long as the statute creating the position is silent on how the position is to be used. The Legislative Counsel has supported this premise. We were informed by representatives of the Department of Finance and the State Personnel Board that they do not have any policies which conflict with the Director's premise.

We concluded that neither the Department nor the Agency is in violation of applicable statutes concerning the use of the exempt position currently reporting to the Resources Agency.

Report referred to Senate Rules Committee; Assembly Committee on Water.

UNIVERSITY OF CALIFORNIA

No. 715.1

REVIEW OF A RESEARCH PROJECT AT THE UNIVERSITY OF CALIFORNIA RELATED TO CHILD-REARING PRACTICES August 15, 1977

Researchers at the University of California at Davis conducted a study on child-rearing practices and academic abilities of students attending the Joaquin Miller Middle School in Sacramento, California.

We detected a procedural error in the approval of the project and, as a result, University officials stopped further work on the project pending a review by the U.C. Human Subjects Committee.

We also found that there are no state statutes or regulations which control research conducted on children in public schools. The Legislature may wish to consider the absence of such regulations and develop the legislation necessary.

Report referred to Senate Rules Committee; Assembly Committee on Education.

MISCELLANEOUS

No. 290

SURVEY OF STATE COMPENSATION INSURANCE FUND ACTIVITIES February 8, 1977

Our examination did not reveal a separate standard of adjustment being applied to state cases by the State Compensation Insurance Fund. Also the current billing process eliminates the incentive which may have

existed in the past to apply a separate adjustment standard to state cases. For these reasons we do not believe an audit of the fund is warranted at this time.

Report referred to Senate Committee on Insurance and Financial Institutions; Assembly Committee on Finance, Insurance and Commerce.

No. 296.1

MANAGEMENT REVIEW OF THE
STATE BAR OF CALIFORNIA
November 17, 1977

Our current review of the State Bar was the third requested by the Joint Legislative Audit Committee since 1974. This letter report covers that portion of our current review concerning the State Bar's implementation of previous recommendations by the Auditor General.

The State Bar has made substantial progress in implementing some of the recommendations. Workload data are being gathered which will permit more accurate projections of staff requirements than had been previously attempted, and more sophisticated cost projections have been developed. The Bar has substituted administrative assistants for attorneys in some staff positions which do not require an attorney's expertise. The Bar has suspended the historical \$10 per member Client Security Fund fee in 1977, and resolved not to assess this fee in 1978. Bar management has also taken steps to more efficiently use its buildings, which may permit excess space to be rented until the Bar needs it.

However, the State Bar disagreed with the Auditor General's recommendations to (1) improve the business management of the State Bar Journal, (2) more equitably charge the costs of administering the Client Security Fund, and (3) use cash management techniques to postpone the need for higher membership fees.

Report referred to Senate Committee on Judiciary; Assembly Committee on Judiciary.

No. 297

FISCAL REVIEW OF MILPITAS UNIFIED SCHOOL DISTRICT
January 7, 1977

The management of the Milpitas Unified School District has been generally effective in meeting its program objectives. However, the district business service office has not had the staff to adequately

supervise the financial operations of the 15 schools. A breakdown in internal control procedures for student body funds was caused primarily by understaffing of the business office. The district has since strengthened these control procedures.

Report referred to Senate Rules Committee; Assembly Committee on Education.

No. 298

SURVEY OF WATER, REFUSE AND SEWAGE SERVICES
PROVIDED TO MOBILE HOME RESIDENTS
March 31, 1977

Recently enacted state guidelines and current federal law should ensure that the majority of California's mobile home residents will be charged for sewage disposal services based on the cost to provide that service. In addition, the majority of mobile home residents are charged for water based upon their actual usage. Our survey also indicated that in some instances less effort and time are required to provide refuse services to mobile homes than conventional single-family dwellings.

Report referred to Senate Rules Committee; Assembly Committee on Housing and Community Development.

No. 720

REVIEW OF THE BERKELEY UNIFIED SCHOOL DISTRICT
September 19, 1977

We reviewed the fiscal and administrative operations of the Berkeley Unified School District (BUSD). BUSD has experienced numerous operational and financial problems over the past five years. During this time, BUSD has employed outside audit and management review firms to study the District's management.

Our study revealed that BUSD has implemented many of the recommendations made by the consultant firms, and that BUSD is committed to better management.

However, the administration of BUSD and the Berkeley School Board have indicated that complete implementation of the new procedures may take up to two years. We believe that a stricter timetable should be adhered to.

Report referred to Senate Rules Committee; Assembly Committee on Education.

FINANCIAL AUDIT REPORTS

No. 701

Fiscal Audit Report, Governor's Office of the State of California, Year Ended June 30, 1976. Report issued June 8, 1977.

No. 708

City of Long Beach Tideland Oil Revenues and Expenditures, Year Ended June 30, 1976. Report Issued November 22, 1977.

No. 702

Financial Audit Report, Supreme Court of California, Year Ended June 30, 1977. Report issued December 30, 1977.

No. 703.1-703.5

Financial Audit Report, Courts of Appeal of the State of California, Year Ended June 30, 1977. Report issued December 30, 1977.

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*OFFICE OF THE AUDITOR GENERAL
925 L Street, Suite 750
Sacramento, California 95814*

AUTHORITY

PERTINENT STATUTES RELATING TO THE JOINT LEGISLATIVE AUDIT COMMITTEE AND THE AUDITOR GENERAL

GOVERNMENT CODE

Article 1. Joint Legislative Audit Committee

10500. The Legislature finds that auditing is now conducted by various state agencies and recognizes the needs of the executive branch of the state government for periodic and special audits of the revenues and expenditures of any state agency, and the accounting and fiscal reporting systems established in state agencies, as a means of insuring the proper and lawful expenditure of state funds. The Legislature, also, recognizes the necessity of an independent audit, in addition to the audit conducted within the executive branch of state government, for the use of both the executive and legislative branches of the state government in establishing a sound fiscal and administrative policy for the government of the state.

Therefore, it is the desire of this Legislature that the internal auditing be coordinated in the executive branch of the government in the interest of economy and efficiency. It is also the desire of the Legislature to create the office of the Auditor General, whose primary duties shall be to examine and report annually upon the financial statements prepared by the executive branch of the state and to perform such other related assignments, including performance audits, as may be requested by the Legislature. The authority of the office under the direction of the Joint Legislative Audit Committee is confined to examining and reporting and is in no way to interfere with adequate internal audit to be conducted by the executive branch of the government.

10501. The Joint Legislative Audit Committee is hereby created. The committee shall determine the policies of the Auditor General, ascertain facts, review reports and take action thereon, and make reports and recommendations to the Legislature and to the houses thereof concerning the state audit, the revenues and expenditures of the State, its departments, subdivisions, and agencies, whether created by the Constitution or otherwise, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly. The committee has a continuing existence and may meet, act, and conduct its business at any place within this State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

10502. The committee shall consist of three Members of the Senate and three Members of the Assembly who shall be selected in the manner provided for in the Joint Rules of the Senate and Assembly. The committee shall elect its own chairman. Vacancies occurring in the membership of the committee between general sessions of the Legislature shall be filled in the manner provided for in the Joint Rules of the Senate and Assembly. A vacancy shall be deemed to exist as to any member of the committee whose term is expiring whenever such member is not reelected at the general election.

10503. The committee is authorized to make rules governing its own proceedings and to create subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee itself has authority to undertake or hold. The provisions of Rule 36 of the Joint Rules of the Senate and Assembly relating to investigating committees shall apply to the committee and it shall have such powers, duties and responsibilities as the Joint Rules of the Senate and Assembly shall from time to time prescribe, and all the powers conferred upon committees by Section 11, Article IV, of the Constitution.

Notwithstanding any other provision of law to the contrary, the committee shall establish priorities and assign all work to be done by the Auditor General.

10504. The committee shall have authority to appoint an Auditor General, deputies and staff, who shall serve at the pleasure of the committee. The committee shall fix the salary of the Auditor General. The funds for the support of the committee shall be provided from the Contingent Funds of the Assembly and Senate in the same manner that such funds are made available to other joint committees of the Legislature.

10505. The governing board or retirement board of the retirement system of every local agency as defined in Section 54951, shall on or before six months following the close of the fiscal year transmit to the committee a report containing a description of all securities held and a comprehensive report of transactions involving the investments of their retirement funds similar to that required of a life insurance company licensed to do business in California. Such report shall include all security transactions, including whom the board purchased securities from and through whom the board purchased. The board shall also so report on all mortgage transactions, including specifically the mortgage broker, mortgage banker, and savings and loan association the board does business with, whether the transaction involved cash, and which banks or savings and loan associations the board has accounts with.

Article 2. Auditor General

10521. The Auditor General, prior to his appointment, shall possess the following minimum qualifications:

(a) He shall be in possession of a valid certificate issued by the State Board of Accountancy to practice as a certified public accountant or a public accountant, and

(b) The combination of education and experience which in the opinion of the committee is necessary.

10522. The Auditor General shall be paid the salary fixed by the Joint Legislative Audit Committee and shall be repaid all actual expenses incurred or paid by him in the discharge of his duties.

10523. The Auditor General may employ and fix the compensation, in accordance with Article XXIV of the Constitution, of such professional assistants and clerical and other employees as he deems necessary for the effective conduct of the work under his charge.

10524. The permanent office of the Auditor General shall be in Sacramento, where he shall be provided with suitable and sufficient offices. When in his judgment the conduct of his work requires, he may maintain offices at other places in the State.

10525. All books, papers, records, and correspondence of the bureau pertaining to its work are public records and shall be filed at any of the regularly maintained offices of the Auditor General, except:

(a) Papers or memoranda that are of no further use may be destroyed upon approval of the Joint Legislative Audit Committee.

(b) Personal papers and correspondence of any person receiving assistance from the Auditor General when such person has requested in writing that his papers and correspondence be kept private and confidential. Such papers and correspondence shall become public records whenever the Auditor General or the Legislature shall so order or the written request is withdrawn.

(c) Papers, correspondence or memoranda pertaining to any audit or investigation not completed, when in the judgment of the Auditor General, disclosure of such papers, correspondence, or memoranda will impede such audit or investigation.

10526. It shall be a misdemeanor for the Auditor General or any employee of the bureau to divulge or make known in any manner not permitted by law, any particulars of any record, document, or information the disclosure of which is restricted by law.

10527. The Auditor General during regular business hours shall have access to, and authority to examine, any and all books, accounts, reports, vouchers, correspondence files and other records, bank accounts, and money or other property, of any agency of the State whether created by the Constitution or otherwise, and it shall be the duty of any officer or employee of any such agency, having such records or property in his possession or under his control, to permit access to, and examination thereof upon the request of the Auditor General or his authorized representative. Any officer or person who shall fail or refuse to permit such access and examination, shall be guilty of a misdemeanor.

10528. The Auditor General, with the approval of the Joint Legislative Audit Committee, shall examine and report annually upon the financial statements prepared by the executive branch of the state to the end that the Legislature will be informed as to the adequacy of such financial statements in compliance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year. In making such examination, he is authorized to make such audit examination of accounts and records, accounting procedures and internal auditing performance as the Joint Legislative Audit Committee may determine and specifically designate to be necessary to disclose all material facts necessary to proper reporting to the Legislature in accordance with the statement of purposes set forth in Section 10500. He shall make such special audits and investigations, including performance audits, of any state agency whether created by the Constitution or otherwise, as requested by the Legislature or any committee of the Legislature.

JOINT RULES OF THE SENATE AND ASSEMBLY (1973-74)

37.2 The Joint Legislative Audit Committee is created pursuant to the Legislature's rulemaking authority and specific constitutional authority by Chapter 4 (commencing with Section 10500) of Part 2, Division 2, Title 2 of the Government Code. The committee shall consist of four Members of the Senate and four Members of the Assembly who shall be selected in the manner provided for in these rules, of which one shall be the Chairman of the fiscal committee for the Senate and one the chairman of the fiscal committee for the Assembly. Notwithstanding anything to the contrary in these rules, two members from each house constitute a quorum and the number of votes necessary to take action on any matter. The Chairman of the Joint Legislative Audit Committee, upon receiving a request by any Member of the Legislature or committee thereof for a copy of a report prepared or being prepared by the Auditor General shall provide the member or committee with a copy of such report when it is, or has been submitted by the Auditor General to the Joint Legislative Audit Committee.

AUDIT APPROVAL AND RELEASE PROCEDURES

1. Any Committee Chairman, Legislator who is an elected officer of the Legislature, or member of the Joint Legislative Audit Committee may request that the Chairman of the Joint Legislative Audit Committee authorize the Auditor General to perform an audit. (6/3/75)
2. The Chairman shall transmit the audit request to the Auditor General for the purpose of determining the feasibility of performing the requested audit. The Auditor General shall review the audit request in the context of the capabilities of his Office and return written recommendations to the Chairman within two weeks. (6/3/75)
3. No action shall be taken on an audit request until such time as the Joint Legislative Audit Committee has reviewed the audit request, and the Auditor General's recommendations on the feasibility of performing the audit request, in an open meeting at which the Legislator requesting the audit, or his authorized representative, shall appear to submit reasons for approving it. (6/3/75)
4. The Chairman shall authorize the Auditor General to initiate an audit only after the audit request is approved at an open meeting of the Joint Legislative Audit Committee. (6/3/75)
5. The committee shall consist of four Members of the Senate and four Members of the Assembly who shall be selected in the manner provided for in these rules, of which one shall be the chairman of the fiscal committee for the Senate and one for the chairman of the fiscal committee for the Assembly. Notwithstanding anything to the contrary in these rules, two members from each house constitute a quorum and the number of votes necessary to take action on any matter. (Joint Rule 37.3/1975-76)
6. Audit request of an urgent nature from a Joint Legislative Audit Committee Member may be approved with the concurrence of the Chairman and Vice-Chairman provided that:
 - a. All Joint Legislative Audit Committee members are notified in writing
 - b. Notification includes a statement that action will be deferred for 72 hours to allow any member to request the audit be deferred until the next meeting;and be it further resolved that the audit request, in any event, shall be placed on the next meeting agenda. (4/7/76)
7. An audit or survey request received during interim (recess) may be approved with the concurrence of the Chairman and Vice Chairman; and be it further resolved that no audit shall commence until five working days after notifying in writing the Joint Legislative Audit Committee members Capitol offices of the audit approval. (8/4/76)

8. Any member of the Joint Legislative Audit Committee may at any time request from the Chairman a report on the status of any audit in progress. (6/3/75)
9. At the conclusion of an audit, the Auditor General or his designated representative shall discuss the audit with the official whose office is subject to audit and submit necessary underlying facts supporting all findings and recommendations which may be included in the report. The official shall be permitted three working days to examine and evaluate the audit findings on a confidential basis and shall be permitted to submit to the Auditor General or his designated representative a written statement of concurrence, explanation or rebuttal concerning the audit findings, including a statement of action taken or under consideration relative to the audit findings and recommendations. The Chairman may extend the time permitted for such examination and evaluation where justified by special circumstances. If such a statement is not received within the time allowed, the Auditor General may submit the report to the Joint Legislative Audit Committee without it. (6/3/75)
10. Upon receiving the statement from the official whose office is subject to audit, the Auditor General shall prepare a final report. The Auditor General may comment in the final report on the statement from the official whose office is subject to audit. The Auditor General shall transmit a copy of the final report, together with the statement from the official whose office is subject to audit, to each member of the Joint Legislative Audit Committee. (6/3/75)
11. The Chairman of the Joint Legislative Audit Committee, upon receiving a request by any Member of the Legislature or committee thereof for a copy of a report prepared or being prepared by the Auditor General, shall provide the member or committee with a copy of such report when it is, or has been, submitted by the Auditor General to the Joint Legislative Audit Committee. (Joint Rule 37.3/1975-76)
12. The Chairman shall publicly release the final audit report no sooner than 48 hours after the final audit report has been transmitted to the members of the Joint Legislative Audit Committee. (6/3/75)
13. Any member of the Joint Legislative Audit Committee may request a public hearing to review the report of the Auditor General. Upon receiving such a request, the Chairman shall schedule a public hearing at a reasonable time and location and inform the members of the Joint Legislative Audit Committee. For the purpose of conducting the public hearing, the Chairman shall either convene the Joint Legislative Audit Committee or appoint a subcommittee. The Chairman, or any member of the Joint Legislative Audit Committee designated by the Chairman, shall preside. The official whose office is subject to audit together with the Auditor General, or their designated representatives, and any other person summoned by the Chairman of the Committee or subcommittee conducting the public hearing, shall appear at the hearing to supply testimony, oral and documentary, and to produce any books, accounts, reports, documents, records or papers of any kind deemed relevant by the Chairman. (6/3/75)

WHO AUDITS THE AUDITORS ?

The accounting and auditing profession is relied upon by many as an independent source of information. Because of this reliance, practitioners have recognized the need to assure that their own quality controls and standards measure up to generally accepted auditing standards promulgated by the profession and expected by the public.

In June of 1976, the Joint Legislative Audit Committee opened the books of the Office of the Auditor General to public accountability. A Sacramento firm of independent certified public accountants was retained to audit the financial statements; the results were published in the Office's 1976 Annual Report. Again in 1977, such an audit was conducted. In addition, we retained the international auditing firm of Haskins & Sells to thoroughly examine the quality of our internal and auditing policies and procedures, and to render a report thereon. The results of both the financial audit and the peer review are reprinted in their entirety on the following pages.

GRANT BENNETT & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

GRANT BENNETT, CPA
DAVID V. KIRSTIEN, CPA
JOHN C. FITZPATRICK, CPA
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720 HOWE AVENUE, SACRAMENTO, CA. 95825 • (916) 929-7411

Joint Legislative Audit Committee
Office of the Auditor General
California Legislature
Sacramento, California

We have examined the balance sheet of the Office of the Auditor General as of June 30, 1977 and the related statement of changes in unexpended allotment account and statement of expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Office of the Auditor General at June 30, 1977 and the results of its operations and changes in unexpended allotment for the year then ended, in conformity with generally accepted accounting principles consistently applied during the period.

Grant Bennett & Company

August 26, 1977

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL
Balance Sheet
June 30, 1977

ASSETS

Revolving fund:		
Cash	\$ 10,634	
Reimbursement receivable	20,814	
Travel reimbursements due		
employees (\$4334) in excess		
of travel advances (\$2,886)	(1,448)	
	<hr/>	
Total revolving fund		\$ 30,000
Available funds held in state treasury		402,542
Accounts receivable (Note 2)		115,452
Furniture, fixtures and equipment (note 1)	67,875	
Leasehold improvements (Note 1)	63,607	131,482
	<hr/>	<hr/>
TOTAL ASSETS		\$ 679,476

LIABILITIES AND FUND BALANCE

Liabilities:		
Accounts payable	\$ 19,038	
Accrued expenses	2,035	
	<hr/>	
Total liabilities		\$ 21,073
Fund balance:		
Investment in fixed assets	131,482	
Revolving fund allotment	30,000	
Unexpended allotment	496,921	
	<hr/>	
Total fund balance		658,403
		<hr/>
TOTAL LIABILITIES AND FUND BALANCE		\$ 679,476

See notes to financial statements

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL
Statement of Changes in Unexpended Allotment Account
For the Year Ended June 30, 1977

Balance June 30, 1976		\$ 461,376
Adjustment to prior year expenditures (Note 5)		<u>79,530</u>
		540,906
Current year augmentation, Assembly Concurrent Resolution No. 210	\$1,700,000	
Less expenses	<u>1,743,985</u>	<u>(43,985)</u>
Balance June 30, 1977		<u><u>\$ 496,921</u></u>

See notes to financial statements

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL
Statement of Expenses
For the Year Ended June 30, 1977

	<u>Actual Expense Amount</u>	<u>Budget Amount</u>	<u>Actual (Over) Under Budget</u>
Salaries	\$ 1,220,003		
Employee benefits	220,620		
	<u>1,440,623</u>	\$ 1,500,000	\$ 59,377
Travel	99,560	77,000	(22,560)
Equipment, services and supplies	74,441	48,000	(26,441)
Printing	35,066	35,000	(66)
Committee expense	3,644	10,000	6,356
Training	9,623	21,000	11,377
Consultants	194,725	200,000	5,275
	<u>1,857,682</u>	<u>\$ 1,891,000</u>	<u>\$ 33,318</u>
Expenses reimbursed by other state agencies (Note 3)	<u>(113,697)</u>		
Total expenses net of reimbursements from others	<u>\$ 1,743,985</u>		

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL
Notes to Financial Statements
June 30, 1977

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Method

The accounts are maintained, generally, using a modified accrual basis as set forth by the Controller of the State of California in the accounting policies section of the State's Annual Report.

b. Fixed Assets

Furniture, fixtures, equipment and leasehold improvements are stated at cost. Fixed assets purchased by the Auditor General are charged against current year operations when acquired. Accordingly, no depreciation or amortization is reflected on these financial statements.

c. Office Space Rental

The lease for the office space used by the Auditor General is held by the Department of General Services, State of California. No expense is recorded on these financial statements for office space rented, inasmuch as the space is provided without charge.

Note 2 - ACCOUNTS RECEIVABLE

Accounts receivable represent reimbursements for audit work performed and other miscellaneous refunds.

Note 3 - REIMBURSEMENTS BY OTHER STATE AGENCIES

The Office of the Auditor General is being reimbursed by two state agencies for part of the cost of certain audits. Such reimbursement policies are determined prior to the start of the audit.

Note 4 - VACATION PAY ACCUMULATED

It is the policy of the State of California not to accrue a liability for accumulated vacation pay. The effect on the current year operations of the Auditor General is:

Accrued vacation pay June 30, 1977	\$ 90,600
Accrued vacation pay June 30, 1976	79,530
	<hr/>
Increase in accrued vacation pay	\$ 11,070
	<hr/>

The above accruals are estimates based on total hours of vacation pay accrued multiplied by an average hourly salary.

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL
Notes to Financial Statements -- Continued
June 30, 1977

Note 5 - ADJUSTMENT TO PRIOR YEAR

The prior year report reflected a reduction of the Unexpended Allotment Account in the amount of \$79,530. Since the accounting policies of the State Controller states that accumulated liability for vacation pay is not to be recorded this accrual has been added back to the Unexpended Allotment Account.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

44 MONTGOMERY STREET
SAN FRANCISCO, CALIFORNIA 94104

October 7, 1977

The Honorable Mike Cullen, Chairman
State of California Joint Legislative
Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Assemblyman Cullen:

We have completed our study of the quality control policies and procedures of the Office of the Auditor General. We compared such policies and procedures to those appropriate for a firm of independent auditors, modified to reflect the unique characteristics of a governmental audit organization. The basic standards against which we measured the Office are described in Statement on Auditing Standards No. 4, Quality Control Considerations for a Firm of Independent Auditors published by the American Institute of Certified Public Accountants, and Standards for Audit of Governmental Organizations, Programs, Activities and Functions published by the Comptroller General of the United States. We understand that the Office's objective is to operate in accordance with practices generally employed by national auditing firms. Accordingly, in conducting our study, we reviewed certain aspects of the operations of the Office from the standpoint of efficiency and effectiveness.

This report contains the observations and recommendations arising from our study. These comments cover the various elements of quality control established in professional literature; they have been grouped for convenience into the categories that you informed us were of most concern and most meaningful to you - planning, hiring, quality assurance, training, and advancement. Certain existing policies and procedures influencing quality control are described herein, but we have not attempted to describe all policies and procedures used by the Office. Accordingly, matters of a positive nature are not discussed in this report.

We shall be pleased to meet with you and the Auditor General to discuss our recommendations further.

Yours truly,

Haskins & Sells

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PLANNING

Advance planning is required if audit work is to be performed efficiently and meet accepted quality standards. The Auditor General has instituted a number of procedures to promote effective planning. Preliminary surveys are generally performed before field work commences on an engagement, an audit program is usually written for the work to be performed, an estimate is made of the time which will be required to complete the work, and semimonthly progress reports concerning the status of each engagement are to be prepared by site supervisors or their managers or supervising auditors. We believe that such procedures are necessary and recommend the following modifications in such procedures to improve the effectiveness of planning. We also comment below on some aspects of staff assignments and scheduling and of long-range planning.

PRELIMINARY SURVEYS

The scope and character of audit work, the specific procedures which will be performed, and the estimated amount of time which will be required to complete an engagement are determined by preliminary surveys. As such, the surveys are an integral part of the planning process and must be completed before work can be scheduled. Although preliminary surveys are generally performed for engagements, we noted several instances in which delays were encountered in completing this survey. The Office's report to the Committee regarding work in progress dated August 1, 1977 listed twelve audits in the preliminary stage. Nine of these audits were still listed as being in the preliminary stage on its September report. We were informed that, in many instances, delays were caused by using staff members for other work assigned by the Committee. Although such uses of staff may be a valid cause of delay, the failure to complete preliminary surveys impairs staff scheduling and office planning efforts.

Greater control should be exercised over preliminary surveys by establishing target dates for their completion, and a high priority should be given to prompt completion of preliminary surveys to provide information for staff scheduling and Office planning.

AUDIT PROGRAMS

A written audit program was prepared for most of the individual engagements which we reviewed. However, there was no indication on such programs that required procedures had been completed or that the programs were used to establish an orderly schedule for performing audit work. Further, we noted many items in the working papers which did not relate to the procedures described in the program. Individual auditors told us that the original program is often not completed on performance audits because of the unique characteristics of each engagement and because new audit directions and procedures are developed as work is performed. Such comments indicate that programs should be updated as work progresses, but do not justify the failure to use them. The use of programs is one of the most effective ways for managers and supervising auditors to plan and control audit field work. They provide a standard against which progress can be measured and changes in audit directions and techniques can be evaluated.

Audit programs should be used for all engagements and amended when the engagement takes new direction. Staff members should initial program steps as they complete the related procedures. Appropriate explanations should be provided for procedures which have not been performed.

TIME BUDGETS

Estimates of the amount of time which will be required to complete an engagement are generally made in four categories: preliminary survey, audit work, report preparation, and report review. Although such estimates may be appropriate for the overall management of the Office, we believe that a single budget for all audit work is too broad to be meaningful to individuals responsible for supervising specific engagements, and that budgets should be established for subcategories consisting of groups of audit program steps. Several members of the Office's staff have indicated that it is difficult to establish detail budgets; however, we believe it is essential that budgets be prepared by audit program categories before field work commences, that budgets be amended as audit procedures are subsequently added or dropped, and that staff time be accumulated by budget category.

Budgets should be established for the amount of time required to complete various categories of audit procedures for each engagement. A comparative record of budgeted and actual time devoted to categories of audit procedures should be maintained as a basis for preparing semimonthly progress reports and for use in future time estimates.

STAFF ASSIGNMENTS AND SCHEDULING

Audit crews for most engagements typically consist of one to three people. The use of small crews reduces the time required for each staff member to become acquainted with audit objectives, procedures, and techniques and reduces disruption at any one time of the organization which is being examined. However, it requires each staff member to devote several hundred hours to an engagement. This may limit opportunities for gaining varied experience. It also may delay the completion of work and issuance of the report, and prolongs disruption of the organization being examined. Further, if the size of audit crews were increased, experienced site supervisors could be used more effectively and the workload of managers and supervising auditors might be reduced.

The Auditor General should consider and establish criteria regarding the size of audit crews and the length of individual assignments.

Vacations, compensating time off, holidays, and training classes are not included on staff assignment schedules. Rather, estimates of the amount of time which will be required to perform work are increased by thirteen percent to provide for such items and sick leave. Although we were informed by an Assistant Auditor General that the thirteen percent estimate worked well on long engagements, he indicated, and our work confirmed, that it was not reliable for short engagements. Scheduling such items separately would reduce the variables which would have to be considered and improve the planning capabilities of the Office.

Vacations, compensating time off, holidays, and training classes should be included on staff assignment schedules.

LONG-RANGE PLANNING

The Office presented a two year planning cycle to the Committee at the beginning of 1976. The planning cycle presented a proposal whereby the Office would attempt to spread its work among different State agencies on a two-year cycle so as to perform some work in each major area of State government. We understand that the Committee accepted the planning cycle subject to the proviso that legislative requests for specific work would be granted first priority and that other work would be performed as staff time became otherwise available. During the intervening months, the Office has been busy with legislative requests for specific work and the planning cycle has not been maintained, although we have been informed that efforts are now under way to update it.

We believe that the two-year planning cycle serves a useful function in measuring the extent of audit coverage of different areas of government and in setting priorities for future audits.

The professional staff includes individuals with a wide variety of specialties, educational backgrounds, and interests. Although the Office recruits and employs people from many different disciplines, we have been informed that there are no goals regarding the optimum mix of different disciplines on staff. Although staff members may be able to complete engagements relating to areas other than their specialties, such work generally would be less efficient and effective than work performed in areas with which they were more familiar. We believe that goals regarding the optimum mix of different disciplines on staff would help the Office to improve its matching of staff capabilities with work requirements.

Consideration should be given to establishing goals regarding the optimum mix of different specialties, educational backgrounds, and interests of professional staff members. Goals should be amended to recognize new work requirements as soon as the Office is able to determine that the type of work it will be asked to perform will change in future periods.

HIRING

The quality of an audit organization's work ultimately depends upon the integrity, competence, and motivation of the persons who perform and supervise the work. Thus, the hiring policies of such an organization are integral factors in maintaining audit quality. The Auditor General has initiated a number of procedures to improve the Office's hiring efforts. We suggest the following matters also be considered.

RECRUITING

During the course of our work we discussed recruiting policies with the Auditor General and members of his professional staff, reviewed the personnel files of all applicants hired for the professional staff during the past year, and reviewed approximately ten files relating to recent applicants whom the Office decided not to hire. Virtually all applications come from walk-in or write-in candidates. The salaries paid by the Office for such candidates were competitive with those offered by major CPA firms in the San Francisco Bay Area for comparable personnel. We believe that an external recruiting program to identify other sources of candidates should be developed to expand the supply of potential professional employees.

We recommend that the Office's recruiting activity be expanded beyond the walk-in/write-in source of supply. Contacts should be established at major colleges and universities offering advanced degree programs, and placement officials and faculty should be urged to furnish resumes on outstanding candidates with work experience in related fields. Consideration should be given to placement of advertisements in professional publications and periodicals appropriate to the skills desired.

VERIFICATION OF EMPLOYMENT DATA

The Office's procedures provide for careful consideration and evaluation of potential employees; however, data provided by applicants who have been hired is not normally verified.

Standard procedures should include verification of data provided by new employees. We believe that the following procedures are appropriate:

- . Asking all new employees to complete a standard employment form, perhaps similar to the Application for Examination currently used by the California State Personnel Board.
- . Obtaining written authorization from new employees for verification of references, prior employment, and education, including copies of related transcripts.
- . Obtaining copies of transcripts to verify educational credit claimed at colleges and universities.
- . Obtaining a copy of Form DD214 for each new hire who has served in the United States Armed Forces to verify dates of service.
- . Obtaining written verification of prior employment, including acceptability of work performance and suitability for rehiring.
- . Resuming use of investigations available through the California Bureau of Criminal Identification and Investigation.
- . Obtaining copies of letters or grading cards issued by the California (or other applicable states) Board of Accountancy to verify passage of CPA examination parts, if any, and similar official verification for professional examinations or designations of attorneys, engineers, and other holders of professional licenses.

The above procedures should be completed within 45 days of employment but, as a minimum, prior employment should be verified by telephone before professional staff members are assigned to their first job.

PERSONNEL FILES

The "check-in procedures" sheet included in personnel files is an excellent record of many of the administrative procedures necessary to process new employees. The files, however, do not document the propriety of hiring decisions and do not always substantiate subsequent personnel decisions. For example, samples of documents and papers written by applicants were not included in personnel files and other contents were not consistent from file to file.

The content and format of personnel files should be standardized.

ORIENTATION OF NEW EMPLOYEES

Orientation programs for new employees introduce them to Office procedures and policies. Although current procedures provide for formally advising new employees of certain administrative matters, much of a new employee's indoctrination is provided by the initial supervisor. This type of orientation program can cause inconsistent explanations of Office policies and procedures.

New employee orientation programs should be expanded and formalized to include some of the information now provided by initial supervisors. The Staff Manual which has been developed in draft form is a positive step and should be issued as soon as possible.

QUALITY ASSURANCE

The Office has implemented a number of procedures during the past year to monitor and control the quality of its work. Work on engagements and related reports are discussed at management meetings several times during the course of an engagement; a report manual has been issued describing the format, characteristics, and style expected of reports, and certain working paper and review procedures; and working papers and reports are reviewed before completion of an engagement. We offer the following suggestions concerning the Office's quality assurance procedures and concerning its application of certain auditing procedures and related matters.

SUPERVISION

Office policies require auditors to prepare semi-monthly site visit reports and to submit semimonthly audit progress reports to the Auditor General. We found that such reports were not consistently prepared for the engagements we reviewed. Site visit reports are the principal documentation of timely supervision of an audit. Due to the lack of such reports, we were unable to assess the extent to which managers and supervising auditors were involved in engagements; however, discussion with various personnel indicate that undue reliance may be placed upon telephone conversations or discussions with site supervisors in the Auditor General's office. Although the extent and nature of supervision will depend on many factors, including the complexity of the work and the qualifications of staff members performing it, we believe that site visits are generally preferable to telephone conversations or discussions within the confines of the Office. Site visits enable supervisors to assess the progress of work through review of audit working papers, to evaluate the performance of the audit crew through discussions with junior staff members and personnel in the organization being examined, and to resolve questions as they arise in the presence of all those affected. Semimonthly audit progress reports are a primary source of information for the Office's planning and for its monthly reports to the Committee. The lack of such reports impairs efficient and effective operations.

The requirement that managers and supervising auditors prepare semimonthly site visit reports and submit semimonthly audit progress reports to the Auditor General should be enforced.

REVIEW

The Office's review procedures provide for referencing each report to the working papers to determine that all statements of fact are adequately documented and correctly reported. The Auditor General has informed us that such reviews are normally conducted by a senior or staff auditor not otherwise associated with the engagement or, if necessary, by an associate auditor. The Auditor General has also informed us that he reviews each set of working papers to determine that the manager or supervising auditor responsible for the work has performed a detailed review. In our review of individual engagements we noted a number of relatively minor matters affecting the reports and working papers that apparently were not challenged in the review process.

As a supplement to the above-mentioned review procedures, we recommend that you institute a regular program for review of selected engagements by an experienced auditor - one of the Assistant Auditor Generals or possibly a manager other than the one whose work is under review.

EVALUATION OF INTERNAL CONTROL

Auditing standards require that an evaluation be made of the system of internal control utilized by an organization which is being examined for financial, program results, and efficiency and economy audits. The Auditor General informed us, and our work indicated, that the Office performs an evaluation of internal control for its financial audits but does not always do so for other work. Although a complete review of internal controls may not be necessary for all other work, the auditor should give attention to those controls which are important to the issues being audited. Most engagements involve reliance on data submitted by the entity which is being examined. As no other audit procedures are performed on much of this information, we believe that, at a minimum, the controls exercised by the organization to collect and compile it should be studied.

Internal controls used by an organization to collect and compile information used in financial, program results, or efficiency and economy audits should be reviewed and evaluated.

REPORTING ON THE SCOPE OF WORK PERFORMED

The summary section of the Office's reports to the Committee generally contains a brief description of work performed. The actual scope of the Office's work is occasionally narrower than is implied in the description. Further, the wording of the stated objectives of post audits printed on the back cover of reports may imply that all such objectives were met. We believe readers of reports could be misled regarding the scope and character of the Office's examinations.

The summary section of the Office's reports to the Committee should contain a more detailed description of work which has been performed. The phrase "we have examined" should not be used unless the Office has complied with all applicable professional standards, in which case it should be modified to describe such standards. The standard wording on the back cover of reports should be reworded to indicate that all listed objectives are not completed on each engagement or consideration should be given to omitting such data.

ORGANIZATION OF AUDIT WORKING PAPERS

The Office has no standard system for organizing audit working papers. Although a copy of the report draft is cross-referenced to the pertinent supporting working papers, there is generally no indication of the purpose of working papers that are not so referenced. The lack of standardization and cross references increases the amount of time required by managers and supervising auditors to review the work and makes it difficult to find pertinent data because working papers cannot be easily identified with related audit program procedures. The failure to clearly identify the purpose of the work may cause staff time to be used inefficiently.

Audit working papers should be planned and used so as to further the most efficient and economical execution of the engagement. The papers should be prepared and filed so as to show the scope of work done and the conclusions reached as a result of it. Cross references between audit programs and working papers should be provided to form an easy trail for review.

LETTER REPORTS REGARDING FINANCIAL AUDITS

The primary purpose of a financial audit is to enable an auditor to express his opinion on the fairness of presentation of financial statements in accordance with generally accepted accounting principles. While such examinations do not specifically involve judgments regarding program results or economy and efficiency, the auditor will often become aware of matters which might improve the operations of the entity or which deserve further consideration. Major public accounting organizations include such matters in separate, written reports to their clients. Although the number of financial audits which the Office has performed in recent years is insignificant, a substantial amount of such work may be performed in future years as a result of regulations dated August 16, 1977 regarding the State and Local Fiscal Assistance Act of 1972. The Auditor General has informed us that he intends to include this type of comment in his report on the related financial statements. This procedure would disclose such matters but it might confuse readers as to the type of work which was performed.

Consideration should be given to issuing separate written reports containing observations and recommendations noted as a result of financial audits.

INDEPENDENCE

We understand the Office carefully considers its relationship to organizations before it begins work on an engagement. In one case, we noted that an independent audit firm was employed to examine an organization with which the Office felt it lacked independence. Also, employees are periodically asked to submit a "Statement of Economic Interests" describing significant financial interests which might cause them to lack independence for certain work. Employees are not, however, requested to provide information regarding other relationships which might impair their independence. Although familial relationships are probably the most common cause of such impairment, preconceived ideas or personal biases, previous management involvement, or other matters could also impair independence.

Formal procedures should be adopted to ensure that staff members are independent with regard to their assignments.

TRAINING

During the last half of 1976 the Office developed a professional career development program which was formally announced to all staff members in an interoffice memorandum from the director of training on December 28, 1976. The new program anticipates training for all professional personnel. When it is fully operational, the program provides that each member of the professional staff will receive between 80 and 100 hours of training annually, and that certain staff members, principally those assigned to fiscal audits, will receive additional training not comprehended in the Office program.

Due to the short time the Office's professional development program has been in use, the lack of classes for certain areas included in the training, and the lack of a previous training program, we were unable to fully assess the effectiveness of the Office's training program. We have considered the areas described in the training director's memorandum dated December 28, 1976, reviewed training material available in the Office relating to certain classes designed to fulfill individual sections of the program, and discussed the program with the Auditor General and the director of training. The training activities to date have formed a good foundation from which to move forward. The program has been in existence long enough for management to now begin to refine the educational process and re-evaluate educational objectives. The suggestions described below are intended to assist management in the continuous process of adopting programs to meet current needs.

MANAGEMENT

The Auditor General hired a director of training within ninety days of his appointment and development of the Office's training program began almost immediately. The Auditor General informed us that he originally intended for the director to spend approximately fifty percent of his time on training matters. We understand that, due to changes in managerial personnel and resulting changes in

work assignments, the director is now devoting substantially less than this amount of time to training functions. We believe that the Auditor General's original assessment of the amount of time which the director would need to devote to training matters was accurate and that reductions of such time prevent the program from being implemented effectively.

The director of training should be provided with adequate time to implement the training program.

The Office has developed a list of the major responsibilities of different levels of professional staff members. The listed responsibilities, however, have not been clearly integrated with the objectives of the course material. For example, the responsibilities of junior, assistant, associate, and staff auditors include "preparation of audit working papers". We believe that the objective of the related training course might be: "At the conclusion of this course, you will be able to prepare, on a timely basis with a minimum of supervision, audit working papers which meet the requirements of the Office of the Auditor General".

Objectives for each training course should be clearly stated.

To obtain maximum benefit from resources devoted to training, all personnel should be aware of the importance of training to their advancement. Although the director of training sent a memorandum to the staff when the program was adopted, we believe that additional communication is necessary and that such communication should be made by the Auditor General to increase its impact.

The Auditor General should issue a supplemental statement of objectives for the training program which expands on the purpose of training, the priority to be given to training (the highest), training concepts (overview), and means of delivery (in-house, state, GAO, etc.).

ADMINISTRATION

The perception of the training program by staff members is as important as its execution and proper administration is critical to proper reception by such personnel. After the objectives previously mentioned have been established, the skills of each employee

should be matched against those required. If an employee or a new hire possesses requisite skills, he should be given constructive credit for the related course. This inventory of skills should be a mutual effort with final decisions made by supervisors who see the auditor function on a job.

Other administrative considerations include:

- . Maintenance of detailed records of constructive credit as well as courses attended.
- . Assignment of priorities to current courses so that over time (three years, for example) all shortfalls are remedied and all current courses are completed.
- . Enforced attendance at training classes (excused only by top management).
- . Publishing a training schedule well in advance (six to ten months) based upon consideration of all known conflicts.
- . Reference to the AICPA Statement on Standards for formal group and self study programs for guidance in training matters.

IMPLEMENTING CHANGE

The Office is now in a position to chart the course of its training program for the next several years. After this has been done we recommend that it make a substantial commitment of time and money to complete the training program. The need for a good educational program for auditors exists now. Delay will be expensive in terms of a decline in the quality of the work produced and in lowered staff morale arising from inadequate preparation to meet job requirements. The actions necessary to implement these changes include:

- . Reviewing course outlines in relation to restated course objectives mentioned above.
- . Assigning different training courses to each career path, such as fiscal auditors, electronic data processing specialists, and other.
- . Dividing some existing course outlines into separate courses to more closely match required skill levels.
- . Providing short courses covering current developments for all levels.
- . Considering an accounting course for nonaccountants.

- . Instigating, perhaps on a self study basis, an orientation course for new hires at time of employment.
- . Presenting an instructor training course for auditors with teaching responsibilities.
- . Making a limited number of courses elective to give staff members an opportunity to have some input in their education process.
- . Identifying sources of course material such as:
 - .. In-house development.
 - .. Existing college or university courses.
 - .. Courses developed to Office specifications by college or university faculty or other consultants.
 - .. Courses developed by other government agencies, the AICPA, the NAA, or other outside vendors.
- . Recognizing that perfection is a goal, but that a course that covers the major points now is far better than a "complete" course two years later.
- . Selecting sources with regard to cost and time constraints.
- . Providing self-study courses including, perhaps, programmed instruction texts and audio cassettes.

SELF DEVELOPMENT

The current training program does not provide for self development by professional staff members. Participants in training classes are expected to do little or no advance preparation. Although the Office does pay one half of the cost, up to \$250, of coaching courses for professional examinations, and we are informed that professional staff are encouraged to participate in professional or other outside activities, there is no policy statement on such activities. Self development activities can provide substantial training at little cost to the organization. We believe that professional employees could be reasonably expected to complete advance preparation for training classes, initially review professional literature, and participate in outside activities on their own time. Participation in certain pertinent outside organizations, however, may require employees to devote time during normal working hours. As senior staff members will derive the most benefit from such activities, the Office may wish to limit participation in such activities

to employees above a certain level. Although some personnel may not cooperate with some or all self development efforts, we believe that the benefits to be derived from cooperating staff would justify the cost of the overall program.

The Office should formally encourage self development efforts by its professional staff members and a policy statement should be issued by the Auditor General. The statement should include:

- . Communicating the importance of self development.
- . Encouraging participation by all staff members in professional and other outside activities at their own cost and during their own time.
- . Encouraging participation by senior staff members in certain activities by reimbursing them for the cost of such activities during normal working hours.

In addition, the Office should distribute advance material, where possible, to participants in training classes.

ON-THE-JOB TRAINING

The Office does not have formal procedures regarding on-the-job training (o-j-t). Such training provides a substantial portion of the aggregate training of employees and is an important part of an effective training program. Audit firms have found that the quality of o-j-t is improved by communication to supervisors of their responsibility for such training, advance planning of the staffing of engagements to comprehend o-j-t, and follow-up by supervisory personnel to determine that adequate o-j-t is taking place.

On-the-job training procedures should be initiated through instruction in o-j-t techniques.

ADVANCEMENT

Practices in advancing personnel have important implications regarding the quality of audit work. The Office currently uses several techniques to help assure that promotions are awarded to qualified personnel. Procedures provide for periodic evaluations of professional personnel; monthly management meetings to evaluate personnel; training classes to remedy individual weaknesses; and annual counseling sessions. We believe that such procedures would be further improved by adopting the following recommendations.

EVALUATION

The five-page evaluation report now being used by the Office for junior and assistant auditors seems functional and appropriate for evaluating performance but it is not always submitted on a timely basis. Current procedures provide for such reports to be prepared quarterly and are occasionally interpreted as placing the responsibility for such review on the auditor's supervisor at the end of the quarter even though substantially all of the staff member's work during such period may have been under a different supervisor. The Office's policy requiring memoranda on the performance of associate, staff, and senior auditors at six-month intervals has not been fully implemented. Further, counseling of supervising auditors and audit managers is not practiced on a consistent, timely basis.

Evaluation reports for junior and assistant auditors should be required at the conclusion of each assignment and at the end of each quarter. Due dates and supervisory responsibilities for all evaluations should be clarified and monitored.

COUNSELING

Staff members seem to be adequately advised of their performance on individual assignments by the supervisor responsible for their work, and we have been informed that office policies require periodic counseling sessions with staff members to advise them of trends in their performance and their potential for further responsibility and promotion. Many staff members, however, indicated that such policies were not always implemented effectively because they

had received no information regarding their potential for advancement. Advising staff members of trends in their work and of their potential should increase staff morale by reducing uncertainty. It might also encourage individuals with poor performance or potential to voluntarily seek other employment. Counseling sessions are also useful for discussing employees' plans for self development and obtaining their reactions to Office policies as a basis for improving such policies.

Staff members should be advised, at least annually, of trends in their performance and their potential for advancement. The staff member's plans for self development and reactions to Office policies, training programs, and work assignments should be discussed. If possible, counselors should be assigned who have not directly supervised the staff member on an engagement that year. A written record of the counseling meeting should be prepared and included in the staff member's personnel file.

PROMOTIONS

Current procedures provide for employees to become eligible for promotions and merit increases in their salary on the anniversary of the date they were employed or the date of their last promotion or merit increase. If they do not receive a promotion or a merit increase at that time, they continue to be eligible in subsequent months. Individuals are not notified if a final decision is made not to grant them either a promotion or a merit increase. Monthly management meetings are held to consider the employees becoming eligible during the month and holdovers from previous months. Such procedures may increase the uncertainty and tension experienced by staff members and involve a significant amount of management time.

Promotions and merit increases should be considered on a less frequent basis. During the annual counseling sessions described above, staff members should be advised if they will not receive a promotion or merit increase.

At the present time, salary increases are awarded only as a result of promotions or merit. Superior performance is required to receive a merit increase. These practices result in an all or nothing situation and require individuals receiving increases to be rated as superior. As superior has not been defined, such classifications may be arbitrary.

The definition of the "superior performance" required to earn a merit increase should be clarified. Use of an alternative salary scale, with more salary steps per classification, should be considered.

TERMINATIONS

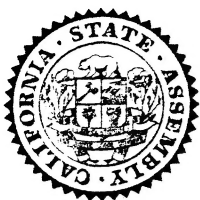
We were informed by the Auditor General that several professional employees are rated "poor" or "fair" and that a number of such individuals have been employed by the Office for several years. Low-potential employees can cause morale problems among the staff and occupy positions which could be filled by potentially superior replacements.

Terminations of unacceptable employees should be accelerated and performed on a regular basis as determined by the annual evaluation process discussed on the preceding pages. A timetable should be established to terminate current employees considered to lack potential.

PERSONNEL ADMINISTRATION

At the present time, we understand the Auditor General is responsible for hiring and terminating members of the professional staff, and that the Administrative Officer for the Committee is responsible for hiring and terminating clerical staff and for reviewing and approving expense reports submitted by all personnel. Dividing such responsibilities confuses lines of authority. Although we understand that this organizational structure was adopted as a result of a shortage of managerial personnel within the Office, the recent appointment of a second Assistant Auditor General should alleviate this problem.

One of the Assistant Auditor Generals should take over the responsibility for effective feedback and counseling, and terminations, and for reviewing and approving expense reports.



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



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December 15, 1977

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 5144
Sacramento, California 95814

Dear Mr. Chairman and Members:

This letter is to advise you of the status of our implementation of the recommendations contained in Haskins & Sells' October 7, 1977, report concerning the policies and procedures of the Office of the Auditor General.

Key members of my staff and I have thoroughly discussed and explored the 31 recommendations with Haskins & Sells, and we conclude that with two exceptions, all are reasonable and feasible. The Assistant Auditors General have been directed to immediately begin implementing the recommendations. Within ninety days, we will perform an internal assessment of how well such recommendations have been implemented in order to assure that they are kept on track. Haskins & Sells has agreed to act as counsel to us regarding the implementation process.

The two recommendations which we do not believe to be desirable are:

1. The Auditor General should consider and establish criteria regarding the size of audit crews and the length of individual assignments.

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We consider size of audit crews and length of assignments based upon available staff at the time the audit requests are received from legislative policy committees. Haskins & Sells' discussion of this subject in their report indicated that our audit crews currently consist of one to three auditors, but that we should consider expanding such crews. We do not subscribe to this recommendation for these reasons:

- a. Most of our audit assignments involve substantial amounts of air travel and per diem allowances. Increasing the size of the audit crews would reduce the cost of per diem for each individual on the assignment because the audit time may be shortened, but the greater number of staff would offset such savings. Moreover, the cost of air travel would increase with more auditors.
 - b. We feel that smaller audit crews provide a better learning foundation, particularly for newer staff members, by allowing them to be exposed to the entire audit process on a given assignment as opposed to having a piecemeal participation with many other staff members.
 - c. A third consideration, while seemingly minor, is that of inadequate office space in agencies being audited. Even with small audit crews, agencies generally are unable to assign us more than one or two desks for staff.
 - d. A large audit crew gives the appearance of "commando effort"; a profile which we do not wish to foster.
2. Consideration should be given to issuing separate written reports containing observations and recommendations noted as a result of financial audits. (emphasis added)

Our current procedure for financial audits is to include observations of related management deficiencies. Haskins & Sells believes that incorporating management issues with financial reports might confuse readers as to the type of work performed. We disagree. Moreover, we believe that separate reporting of management issues may cause the financial audit report taken alone to be misleading. We believe that a financial audit report which contains an unqualified opinion on

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financial statements may lead readers to believe that management operations are properly and efficiently conducted, when in fact they may not be. Readers could be confused when a separate report is later issued containing management deficiency findings of which we were aware at the time the financial audit report was issued.

We believe that the decision of the Joint Legislative Audit Committee to conduct an external review of the Office of the Auditor General was a wise action. It has been a valuable experience for us, not only because Haskins & Sells endorsed many of our recently established quality control procedures, but also because we believe that many of their recommendations when implemented should substantially improve our responsiveness to the Legislature. We strongly recommend that other audit organizations, public and private alike, submit to an external "peer review". Auditors, like management must also be accountable.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

JHW:ncr

BUDGETED AUDITOR POSITIONS IN STATE GOVERNMENT

The Auditor General's Office has conducted a review of the number of budgeted auditor positions in State Government. We defined the duties of each type of auditor as follows:

- Management - Determines whether an entity is managing or using its resources efficiently, economically and effectively.
- Fiscal/Compliance - Determines whether financial operations are properly conducted and financial reports are presented fairly, and whether the audited entity has complied with applicable laws and regulations.
- Revenue - Performs financial audits and investigations of individuals, business firms or governmental agencies subject to state taxation for the purposes of verifying tax liability.

<u>Agency</u>	<u>Type of Auditor</u>			
	<u>Management</u>	<u>Fiscal/Compliance</u>	<u>Revenue</u>	<u>Total</u>
Agriculture and Services	155	36	621	812
Business and Transportation	84	348	192	624
Health and Welfare	538	183	676	1,397
Resources	29	17	3	49
Other Departments	234	353	964	<u>1,551</u>
Estimated Total Number of Budgeted Auditors in State Government				<u><u>4,433</u></u>